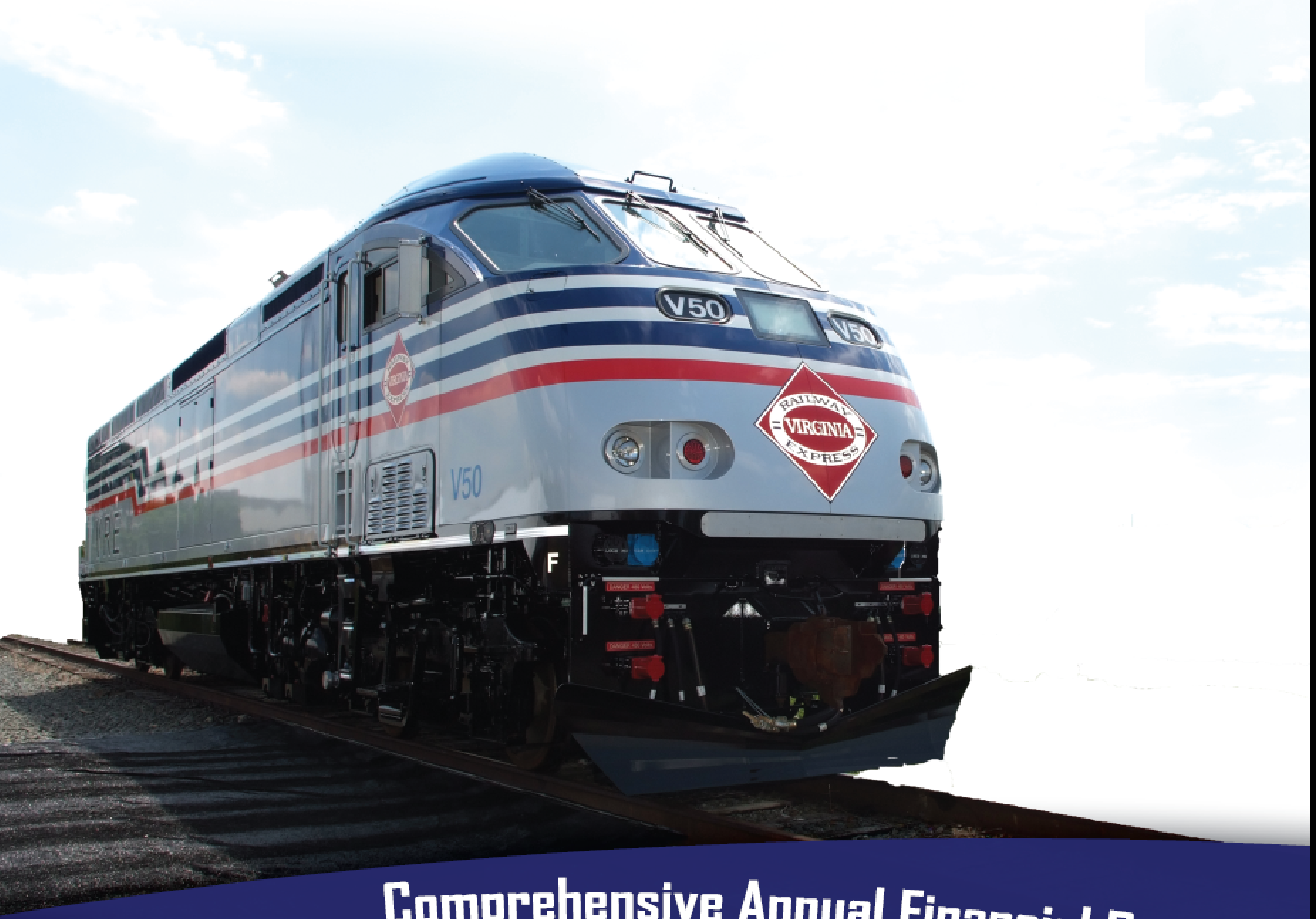
Virginia Railway Express

Headquartered in Alexandria, Virginia

L'ENFANT PLAZA CRYSTAL CITY ALEXANDRIA FRANCONIA SPRINGFIELD LORTON WOODBRIDGE RIPPON QUANTICO BROOKE LEELAND ROAD FREDERICKSBURG BACKL

BACKLICK ROAD ROLLING ROAD BURKE CENTRE MANASSAS PARK MANASSAS BROAD RUN WASHINGTON D.C L'ENFANT PLAZA CRYSTAL CITY ALEXANDRIA FRANCONIA



Comprehensive Annual Financial Report

for the years ended june 30, 2010 and 2009

1500 King Street Suite 202
Alexandria, Virginia 22314 USA
www.vre.org gotrains@vre.org

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, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

VIRGINIA RAILWAY EXPRESS

Comprehensive Annual Financial Report

YEARS ENDED JUNE 30, 2010 AND 2009

Prepared by:

Department of Finance

THIS PAGE NOT USED

TABLE OF CONTENTS

THIS PAGE NOT USED

Introductory Section

Virginia Railway Express
A Transportation Partnership

November 8, 2010

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

We are pleased to present the comprehensive annual financial report for fiscal year ended June 30, 2010 for the Virginia Railway Express (VRE), a commuter rail service jointly owned and operated by the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC). NVTC and PRTC are political subdivisions of the Commonwealth of Virginia. VRE is not a legal entity and is considered a joint venture of the two Commissions for accounting purposes. As used in this report, VRE refers to those activities that are carried out jointly or individually by NVTC and PRTC to operate the commuter rail activities described below.

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 2010. 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

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 2010, VRE operated 30 trains and served an average daily ridership of 16,673.

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. PRTC is the recipient of federal grants for the rail service and NVTC is the recipient of state grants for the rail service, with certain minor exceptions. All non-contract staff are employees of PRTC.

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

Economic Conditions

Major Initiatives

During fiscal year 2010, VRE focused on improving systems that would ensure the future health of the rail line.

Ten new bi-level Gallery railcars were delivered during the fiscal year and placed in service, the completion of the purchase of 60 railcars approved in fiscal years 2008 and 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. An additional six locomotives were ordered during fiscal year 2010 and five more were approved for purchase by the Commissions in the early months of fiscal year 2011. The first new locomotive was delivered to VRE in June 2010 and seventeen will be received by the end of fiscal year 2011. The new locomotives are more fuel efficient and less costly to maintain and will improve service reliability.

A platform extension at the Burke station was completed during the fiscal year and construction of a second platform and overhead pedestrian bridge at the Woodbridge station was substantially completed by year-end. Full use of the new Woodbridge second platform began in August 2010. For Fredericksburg line passengers, design work continues for the expansion of parking at both the Brooke and Leeland stations. Improvements at the Broad Run storage yard, including the construction of a service and inspection building and the extension of tracks for rolling stock storage were completed in the first quarter of fiscal year 2011.

In addition, a radio communications system that provides for the monitoring of train communications and can establish direct communication with trains during emergencies was completed. Work continued on an upgrade to the current fare collection system to assure compliance with the Payment Card Industry (PCI) standards for data security.

During the second half of FY 2010, VRE prepared for the transition to a new contract operator for train operations and maintenance services. The contract with Keolis Rail Services Virginia, LLC began June 25, 2010, although Amtrak continued to operate revenue trains for the VRE service through July 9, 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 was begun during fiscal year 2010 and will be completed in fiscal 2011. 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, environmental concerns increased, and highways became even more crowded, commuters were drawn to transit alternatives. For VRE, much of this increased ridership was maintained even when fuel costs fell, and further strengthened by investments in new equipment and an increase in the transit subsidy available to many area residents. As a result, VRE experienced its highest cumulative average daily ridership to date during fiscal year 2010. 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 continue to 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, 2009. 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. Paul Milde, Stafford County
Vice-Chairman	Hon. Sharon Bulova, Fairfax County
Treasurer	Hon. Paul Smedberg, City of Alexandria
Secretary	Hon. Wally Covington, Prince William County

Members

Hon. Maureen Caddigan, Prince William County
Hon. John Cook, Fairfax County
Thelma Drake, VDRPT
Hon. Frederic Howe, City of Fredericksburg
Hon. John Jenkins, Prince William County
Hon. Suhas Naddoni, City of Manassas Park
Hon. Gary Skinner, Spotsylvania County
Hon. Susan Stimpson, Stafford County
Hon. Jonathan Way, City of Manassas
Hon. Christopher Zimmerman, Arlington County

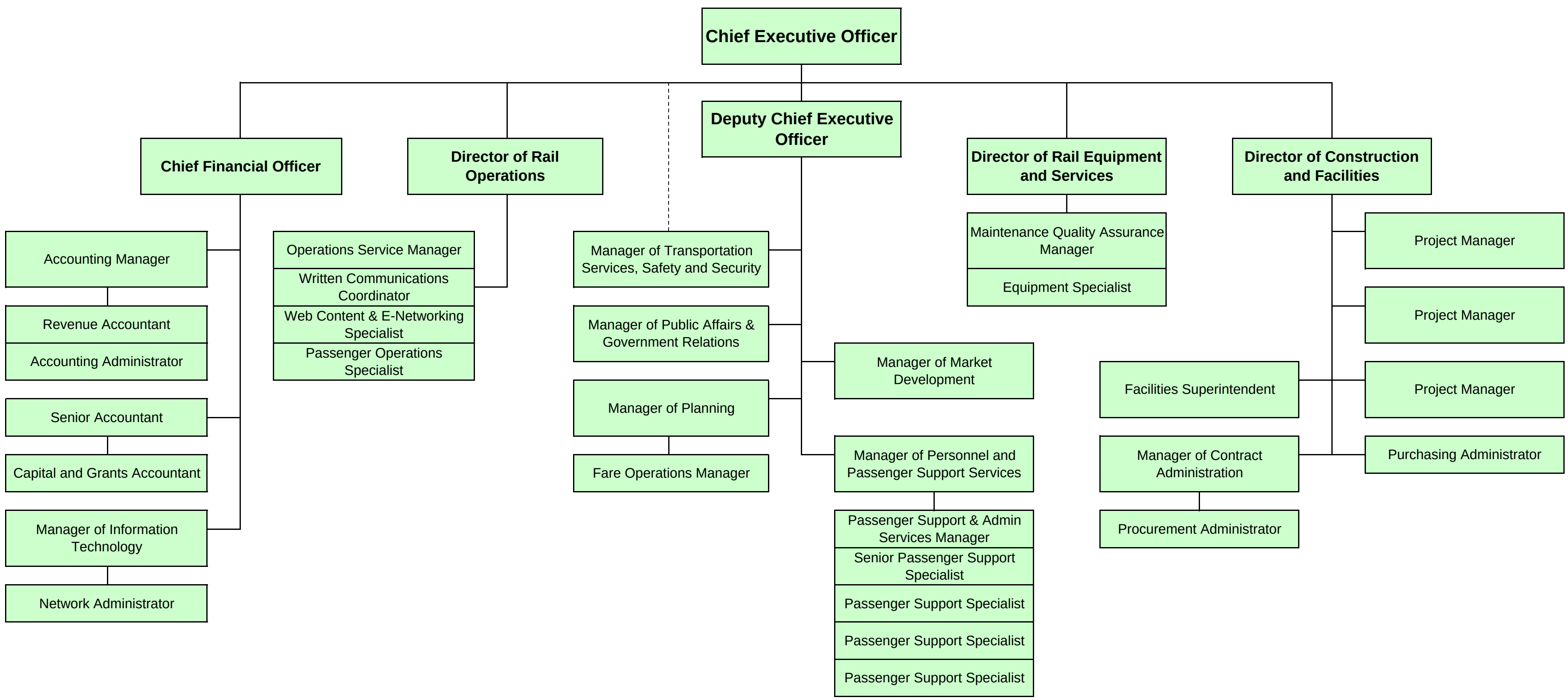
Alternates

Hon. Marc Aveni, City of Manassas
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. Robert Krupicka, City of Alexandria
Hon. Jerry Logan, Spotsylvania County
Hon. Michael May, Prince William County
Hon. Jeff McKay, Fairfax County
Hon. Martin Nohe, Prince William County
Kevin Page, VDRPT
Hon. John Stirrup, Prince William County

Management

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

Virginia Railway Express
Organizational Chart
June 2010



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

Financial Section

PBGH
CERTIFIED PUBLIC ACCOUNTANTS
A LIMITED LIABILITY PARTNERSHIP
www.pbgh.com

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 years ended June 30, 2010 and 2009, 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 audits provide a reasonable basis for our opinion.

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, 2010 and 2009, 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 10, 2010 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 37 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 an opinion 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 10, 2010

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, 2010. 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 16.3 percent compared to the prior year, from $26,034,720 to $30,267,105. Ridership increased by 4.6 percent from 3,857,646 annual trips to 4,033,230.
- Operating expenses increased by 3.5 percent from $50,792,704 to $52,594,511.
- Non-operating revenue and capital grants increased by 4.8 percent from $68,326,404 to $71,605,975. This increase reflects large federal grants drawn in fiscal year 2010 for the purchase of locomotives (with PRTC as grantee).
- The operating loss before depreciation was $22,327,406, a decrease from the previous year of 9.8 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 $31,864,809 from $169,745,521 to $201,610,330. At the end of the fiscal year, unrestricted net assets were $21,383,156.
- During the fiscal year, capital assets, net of accumulated depreciation and amortization, increased by 8.9 percent, primarily as the result of the completion of 10 new Gallery railcars and progress on the construction of 15 new locomotives.

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 21-36 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, 2010, 2009, and 2008 is shown below:

Condensed Statements of Net Assets

	2010	2009	2008
ASSETS:			
Current and other assets	$ 52,448,311	$ 43,704,514	$ 39,350,039
Capital assets, net	280,924,816	257,970,013	226,293,095
Total assets	333,373,127	301,674,527	265,643,134
LIABILITIES:			
Current portion of long-term debt	7,816,356	7,209,050	7,721,012
Other current liabilities	17,571,445	19,665,846	23,576,220
Non-current liabilities	106,374,996	105,054,110	95,928,158
Total liabilities	131,762,797	131,929,006	127,225,390
NET ASSETS:			
Invested in capital assets, net of related debt`	164,700,445	143,591,053	113,435,714
Restricted	15,526,729	14,273,387	16,027,225
Unrestricted	21,383,156	11,881,081	8,954,805
Total net assets	$ 201,610,330	$ 169,745,521	$ 138,417,744

Current Year

Net assets increased by approximately $31.9 million, or 18.8 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, $164.7 million or 82 percent, represents its investment in capital assets (e.g., land, buildings, improvements, rolling stock, equipment and software), 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 amortization and net of related debt. The resources required to repay this debt must be provided annually from operations and federal (with PRTC as grantee), state and other local support since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

A portion of VRE's net assets, $15.5 million or 7.7 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 and amortization, increased approximately $23 million or 8.9 percent as the result of rolling stock and facilities additions.

Current liabilities decreased approximately $1.5 million or 5.5 percent as the result of a decrease to accounts payable.

Noncurrent liabilities increased approximately $1.3 million or 1.3 percent because of new debt incurred for the purchase of ten additional Gallery railcars, less scheduled bond and note repayments during the year.

Restricted net assets increased approximately $1.3 million or 8.8 percent.

Prior 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, $143.6 million or 84.6 percent, represented its investment in capital assets (e.g., land, buildings, improvements, rolling stock, equipment and software), less the related indebtedness outstanding used to acquire those capital assets.

A portion of VRE's net assets, $14.3 million or 8.4 percent represented 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.

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.

	2010	2009	2008
Operating revenues:			
Passenger revenue	$ 30,019,730	$ 25,909,794	$ 21,688,092
Equipment rentals and other	247,375	124,926	133,242
Total operating revenues	30,267,105	26,034,720	21,821,334
Non-operating revenues and capital grants:			
Subsidies and grants:			
Commonwealth of Virginia	24,093,271	25,711,262	25,755,293
Federal – with PRTC as grantee	29,963,107	27,432,583	30,782,327
Federal – other	402,355	53,738	959,088
Jurisdictional contributions	16,376,968	17,275,500	13,379,155
In-kind and local contributions	680,631	1,903,284	925,338
Insurance proceeds	-	-	262,676
Interest income	89,643	406,855	1,334,850
Total non-operating revenues and capital grants	71,605,975	68,326,404	73,398,727
Total revenues	101,873,080	94,361,124	95,220,061
Operating expenses:			
Contract operations and maintenance	20,291,361	18,694,757	17,433,267
Other operations and maintenance	12,055,009	12,575,004	11,562,892
Property leases and access fees	9,482,367	8,686,385	8,279,505
Insurance	3,864,366	3,866,438	4,099,475
Marketing and sales	1,259,048	1,477,554	1,537,243
General and administrative	5,642,360	5,492,566	5,151,117
Total operating expenses	52,594,511	50,792,704	48,063,499
Other expenses:			
Depreciation and amortization	11,337,406	10,445,041	10,640,098
Interest, financing costs and other	5,682,935	6,014,243	4,525,279
Total other expenses	17,020,341	16,459,284	15,165,377
Total expenses	69,614,852	67,251,988	63,228,876
Revenues over expenses before special items	32,258,228	27,109,136	31,991,185
Special item – gain (loss) on disposal of assets	(393,419)	4,218,641	(3,176,932)
Change in net assets	31,864,809	31,327,777	28,814,253
Net assets - beginning of year	169,745,521	138,417,744	109,603,491
Net assets - end of year	$ 201,610,330	$ 169,745,521	$ 138,417,744

Revenues

Current Year

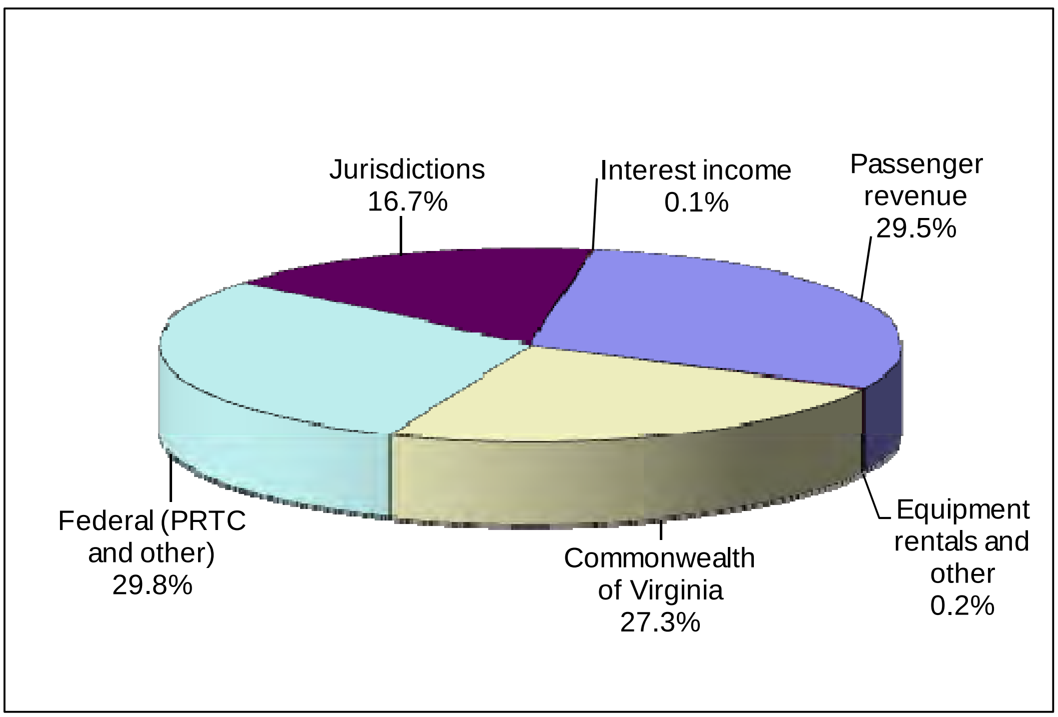
Total revenues for the current fiscal year increased approximately $7.5 million or 8 percent. Operating revenues totaled $30.3 million, an increase of 16.3 percent from the prior year.

Passenger revenue increased approximately $4.1 million or 15.9 percent, the combined result of a 7 percent midyear fare increase in 2009 and an increase in ridership.

	June 30,		
	2010	2009	2008
Ridership	4,033,230	3,857,646	3,628,563
% Increase (Decrease)	4.6%	6.3%	5.1%

Subsidies and capital grants increased approximately $5.7 million or 11.7 percent; this increase reflects the grants for the purchase of locomotives. Jurisdictional subsidies decreased approximately $.9 million or 5.2 percent. In addition, VRE received $.7 million of in-kind and local contributions.

The following chart shows the major sources of revenues for the year ended June 30, 2010:



<u>Prior Year</u>

Total revenues for the prior fiscal year decreased approximately $.86 million or .9 percent. Operating revenues totaled $26 million, an increase of 19.3 percent from fiscal year 2008.

Passenger revenue increased approximately $4.2 million or 19.5 percent, the combined result of a 10 percent fare increase and a 6.3 percent increase in ridership. Fares were increased 3 percent at the beginning of the year and an additional 7 percent midyear.

Subsidies and capital grants decreased approximately $8.8 million or 15.2 percent; this decrease reflects the large federal grant drawn primarily in fiscal year 2009 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.

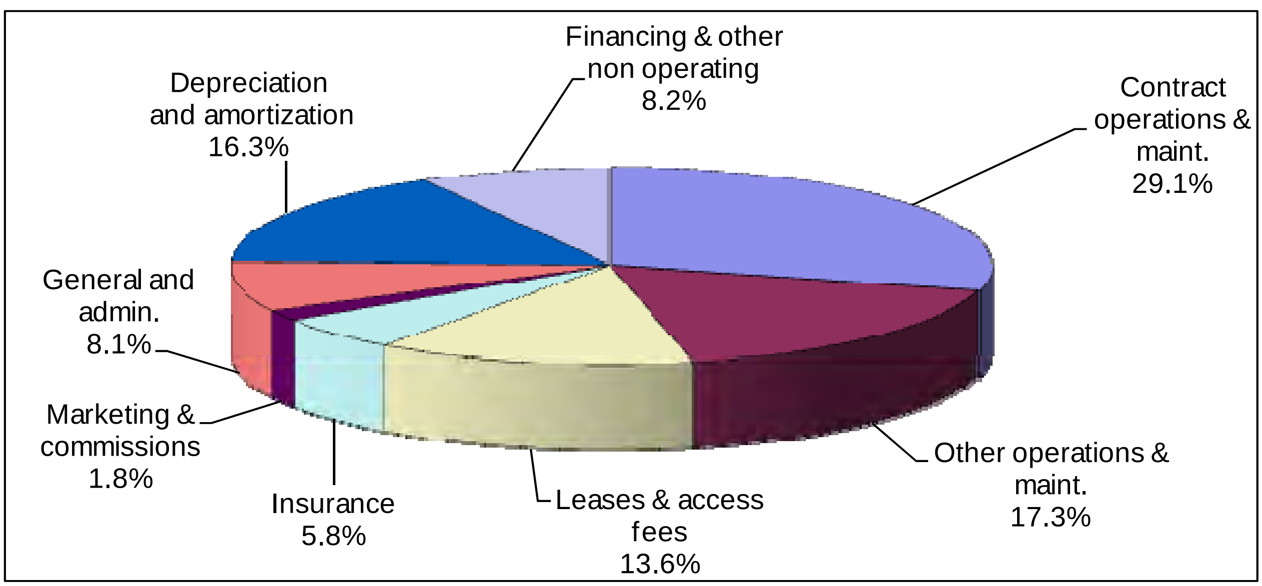
Expenses

<u>Current Year</u>

Total operating and other expenses, including depreciation and amortization, increased approximately $2.4 million or 3.5 percent. Operating expenses increased by $1.8 million or 3.6 percent. Total operating expenses were approximately $52.6 million compared to approximately $50.8 million for the prior fiscal year.

Contracted operation and maintenance costs increased by approximately $1.6 million or 8.5 percent because of the one-time costs of transitioning to a new operation and equipment maintenance contractor during the fiscal year. Diesel fuel costs were less than the amount for the prior year by approximately $1.9 million or 33.4 percent, primarily as the result of a substantial decrease to the price of diesel fuel. Property leases and access fees increased by approximately $.77 million or 9 percent as the result of contractual increases and marketing costs decreased by approximately $.31 million or 63.8 percent, a reflection of the decision not to conduct any marketing campaigns during the fiscal year. Depreciation and amortization increased by approximately $.89 million or 8.5 percent and net interest and financing costs decreased by $.33 million or 5.5 percent.

The following chart shows the major expense categories for the year ended June 30, 2010:



Prior Year

Total operating and other expenses, including depreciation and amortization, 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 fiscal year 2008.

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 by 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.

Capital Assets and Debt Administration

Capital Assets

VRE's investment in capital assets as of June 30, 2010 amounts to $281 million (net of accumulated depreciation and amortization). This investment in capital assets includes rolling stock, stations and platforms, track and signal improvements, office facilities, equipment and software, and equity in local property. Acquisitions are funded using a variety of financing techniques, including loans and grants from varying government agencies and other local sources.

	2010	2009	2008
Rolling stock	$ 175,852,176	$ 153,611,395	$ 148,011,293
Vehicles	74,162	45,550	45,550
Facilities	78,099,155	76,785,604	59,713,775
Track and signal improvements	52,151,000	52,151,000	52,269,212
Equipment	8,776,321	7,850,081	7,796,280
Construction in progress	42,817,578	33,842,651	19,461,401
Equity in local properties	5,244,798	5,244,798	5,244,798
Furniture, equipment and software	3,724,664	3,314,942	3,256,370
	366,739,854	332,846,021	295,798,679
Less accumulated depreciation and amortization	(85,815,038)	(74,876,008)	(69,505,584)
Total capital assets, net	$ 280,924,816	$ 257,970,013	$ 226,293,095

Current Year

During fiscal year 2010, net investment in capital assets increased approximately $23 million or 8.9 percent. Completed projects totaling approximately $24.9 million were closed from construction in progress to their respective capital accounts and an additional $1.3 million was charged directly to the capital accounts.

The major completed projects were: manufacture and purchase of 10 Gallery railcars ($22.8 million); Burke platform extension ($1.2 million); the cab signal project ($.5 million); and the two-way radio project ($.4 million). Two older locomotives were sold during the year, a warehouse at the Amtrak Ivy City yard was converted to Amtrak ownership, and equipment was transferred to the purchaser of older Gallery cars and to the new contract operator for a combined net loss on sale in the amount of $.4 million. The major additions to construction in progress during the fiscal year were for the acquisition of new locomotives, improvements to the stations and yards, expansion of parking facilities, and an upgrade to the fare collection system.

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 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.

Debt Administration

At June 30, 2010, VRE had total debt outstanding of $114,455,478. The revenue bond debt is issued under the name of the Northern Virginia Transportation Commission (NVTC). The bonds are secured by a pledge of VRE revenue. A debt service insurance policy guarantees payment of each bond series.

The Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC) are co-lessees of the capital lease for rolling stock, which is secured by the related equipment. The note payable for VRE's office condominium was issued by NVTC and is secured by the real estate. The promissory notes with the Federal Railroad Administration for the purchase of 60 Gallery railcars are issued by NVTC, and PRTC consented to their issuance and to the pledge of VRE revenues. The notes are secured by the revenues of VRE and the rolling stock.

	2010	2009	2008
Revenue bonds	$ 29,490,000	$ 34,425,000	$ 53,755,000
Capital leases	20,775,627	21,720,726	23,044,557
Notes payable	64,189,851	56,622,937	27,530,555
Total	$ 114,455,478	$ 112,768,663	$ 104,330,112

VRE has access to a line of credit of up to $1 million with SunTrust Bank; the line was not utilized during 2010. 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.

After three fare increases in the prior two years, no general fare increase was budgeted for fiscal year 2011. The local subsidy for fiscal year 2011 was reduced by $306,659 to a total of $16,070,309, a reflection of the decline in local jurisdiction revenue. The level of state funding for transportation continues to be extremely volatile.

The FY 2011 budget reflects costs associated with a new five-year agreement with Amtrak for access to Washington Union Terminal and a new contract with Keolis Rail Services Virginia for operations and maintenance of the commuter rail service. The Keolis contract is for five years with an option to renew for two additional five year periods.

Request for Information

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

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

ASSETS	**2010**	2009
Current Assets:		
Cash and cash equivalents	**$ 10,042,748**	$ 5,901,750
Accounts receivable:		
Due from PRTC – funded by FTA	**13,843,349**	8,790,894
Federal grants – other	**190,368**	-
Commonwealth of Virginia grants	**2,959,930**	5,051,200
Trade receivables, net of allowance for doubtful accounts	**4,036,020**	4,126,931
Other receivables	**104,958**	49,020
Inventory	**3,445,580**	3,464,574
Prepaid expenses and other	**772,322**	548,371
Restricted cash, cash equivalents and investments	**15,579,409**	14,326,630
Total current assets	**50,974,684**	42,259,370
Noncurrent Assets:		
Deferred bond and lease costs, net	**1,473,627**	1,445,144
Capital assets:		
Rolling stock	**175,852,176**	153,611,395
Vehicles	**74,162**	45,550
Facilities	**78,099,155**	76,785,604
Track and signal improvements	**52,151,000**	52,151,000
Equipment	**8,776,321**	7,850,081
Construction in progress	**42,817,578**	33,842,651
Equity in local properties	**5,244,798**	5,244,798
Furniture, equipment and software	**3,724,664**	3,314,942
	366,739,854	332,846,021
Less accumulated depreciation and amortization	**(85,815,038)**	(74,876,008)
Total capital assets, net	**280,924,816**	257,970,013
Total noncurrent assets	**282,398,443**	259,415,157
Total assets	**$ 333,373,127**	$ 301,674,527

LIABILITIES AND NET ASSETS	2010	2009
Current Liabilities:		
Accounts payable	**$ 3,386,946**	$ 6,459,391
Accounts payable – rolling stock	**1,609,565**	1,397,863
Payable to Commissions	**496,560**	1,131,576
Compensated absences	**1,462**	3,930
Accrued expenses	**7,978,407**	7,152,734
Accrued interest	**1,065,082**	1,192,344
Unearned revenue	**1,056,857**	938,095
Contract retainage	**1,976,566**	1,389,913
Notes payable	**1,632,381**	1,328,952
Current portion of capital lease obligations	**988,975**	945,098
Current portion of revenue bonds	**5,195,000**	4,935,000
Total current liabilities	**25,387,801**	26,874,896
Noncurrent Liabilities:		
Capital lease obligations	**19,786,652**	20,775,628
Notes payable	**62,557,470**	55,293,985
Revenue bonds payable, net	**23,747,340**	28,726,958
Compensated absences	**283,534**	257,539
Total noncurrent liabilities	**106,374,996**	105,054,110
Total liabilities	**131,762,797**	131,929,006
Net Assets:		
Invested in capital assets, net of related debt	**164,700,445**	143,591,053
Restricted for liability insurance plan	**9,511,797**	8,229,082
Restricted for debt service and capital lease	**5,980,313**	5,850,112
Restricted grants or contributions	**34,619**	194,193
Unrestricted assets	**21,383,156**	11,881,081
Total net assets	**201,610,330**	169,745,521
Total liabilities and net assets	**$ 333,373,127**	$ 301,674,527

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Revenues:		
Passenger revenue	**$ 30,019,730**	$ 25,909,794
Equipment rentals and other	**247,375**	124,926
Total operating revenues	**30,267,105**	26,034,720
Operating Expenses:		
Contract operations and maintenance	**20,291,361**	18,694,757
Other operations and maintenance	**12,055,009**	12,575,004
Property leases and access fees	**9,482,367**	8,686,385
Insurance	**3,864,366**	3,866,438
Marketing and sales	**1,259,048**	1,477,554
General and administrative	**5,642,360**	5,492,566
Total operating expenses	**52,594,511**	50,792,704
Operating loss before depreciation and amortization	**(22,327,406)**	(24,757,984)
Depreciation and amortization	**(11,337,406)**	(10,445,041)
Operating loss	**(33,664,812)**	(35,203,025)
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	**13,153,781**	13,482,816
Federal grants – with PRTC as grantee	**14,525,795**	12,784,123
Jurisdictional contributions	**16,376,968**	17,275,500
Interest income:		
Operating funds	**23,893**	129,620
Insurance trust	**65,164**	241,003
Other restricted funds	**586**	36,232
Interest, amortization and other nonoperating expenses, net	**(5,682,935)**	(6,014,243)
Total nonoperating revenues, net	**38,463,252**	37,935,051
Capital grants and assistance:		
Commonwealth of Virginia grants	**10,939,490**	12,228,446
Federal grants – with PRTC as grantee	**15,437,312**	14,648,460
Federal grants – other	**402,355**	53,738
Less: Pass-through to Fairfax County	-	(4,456,818)
Other local contributions	**680,631**	1,903,284
Total capital grants and assistance, net	**27,459,788**	24,377,110
Gain/(Loss) on disposal of assets	**(393,419)**	4,218,641
Change in net assets	**31,864,809**	31,327,777
Net Assets, beginning	**169,745,521**	138,417,744
Net Assets, ending	$ **201,610,330**	$ 169,745,521

See Notes to Financial Statements.

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

		2010		2009
Cash Flows From Operating Activities:				
Receipts from customers	$	**30,393,082**	$	24,447,258
Payments to suppliers		**(48,894,869)**		(46,040,729)
Payments to employees		**(4,660,169)**		(3,842,570)
Net cash used in operating activities		**(23,161,956)**		(25,436,041)
Cash Flows From Noncapital Financing Activities:				
Governmental subsidies		**44,513,699**		42,947,801
Cash Flows From Capital and Related Financing Activities:				
Acquisition and construction of capital assets		**(26,997,485)**		(33,571,366)
Capital grants and assistance		**23,537,414**		23,818,720
Pass through to Fairfax County		**-**		(4,456,818)
Proceeds from sale of capital assets		**300,000**		22,027,504
Principal paid on capital lease obligations		**(945,099)**		(1,323,831)
Principal paid on notes		**(1,384,221)**		(975,427)
Principal paid on bonds		**(4,935,000)**		(19,330,000)
Interest paid on capital lease obligation		**(986,259)**		(1,040,338)
Interest paid on bonds and notes		**(4,637,040)**		(4,754,084)
Net cash used in capital and related financing activities		**(16,047,690)**		(19,605,640)
Cash Flows From Investing Activities:				
Interest received on investments		**89,724**		406,755
Increase (decrease) in cash and cash equivalents		**5,393,777**		(1,687,125)
Cash and Cash Equivalents, beginning		**20,228,380**		21,915,505
Cash and Cash Equivalents, ending	$	**25,622,157**	$	20,228,380
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:				
Operating loss	$	**(33,664,812)**	$	(35,203,025)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization		**11,337,406**		10,445,041
Loss on disposal of inventory		**-**		296,811
Loss on disposal of assets		**44,780**		-
(Increase) decrease in:				
Accounts receivable		**90,911**		(1,855,998)
Other receivables		**(83,696)**		-
Inventory		**(77,041)**		(93,353)
Prepaid expenses and other		**(223,951)**		(97,212)
Increase (decrease) in:				
Accounts payable and accrued expenses		**(704,315)**		803,159
Unearned revenue		**118,762**		268,536
Net cash used in operating activities	$	**(23,161,956)**	$	(25,436,041)
Schedule of Noncash Capital Activities				
Capital assets acquired through accounts payable	$	**2,441,232**	$	5,534,131
Capital assets acquired through notes payable		**8,951,135**		30,067,809
Capital assets acquired through accrued liabilities		**2,909,466**		1,758,811
Capital assets acquired through in-kind contributions		**341,344**		517,664
	$	**14,643,177**	$	37,878,415

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Virginia Railway Express (VRE) is accounted for as a joint venture of the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC). Pursuant to a Master Agreement signed in 1989, NVTC and PRTC (the Commissions) jointly own and operate VRE. VRE provides commuter rail service on two railroad lines 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.

Assets for VRE operations have been purchased in the name of the Commissions and funded primarily by grants, loans or other financing arrangements for which one or both Commissions have served as grantee, issuer, borrower, or in other related capacities. In order to present a full and accurate picture of VRE operations, all financial transactions related to the commuter rail program are combined in this report.

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The system is not currently configured for fare revenues alone to produce positive operating income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds, a federal loan, a lease financing, Federal (with PRTC as grantee) and Commonwealth of Virginia grants, and jurisdictional contributions 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, Spotsylvania and Stafford; and the cities of Manassas, Manassas Park and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia. In February 2010 the VRE Master Agreement was amended to include Spotsylvania County as a participating jurisdiction. Spotsylvania County's share of the VRE annual subsidy from February 2010 through the middle of fiscal year 2012 has been deferred until 60 days after the beginning of fiscal year 2013.

In July 2007, the Commissions adopted amendments to the VRE Master Agreement that expanded the Operations Board to include all member jurisdictions and provided for board representation proportionate to system ridership, and weighted voting proportionate to jurisdictional subsidy. In addition, the amendments apportioned jurisdictional subsidies on system ridership only, rather than the former 90 percent system ridership and 10 percent population formula. The amendment to the subsidy formula 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.

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting

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

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

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

Revenue recognition**:** Intergovernmental revenues, consisting primarily of Federal (with PRTC as grantee) and Commonwealth of Virginia 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 $15,579,409 and $14,326,630 at June 30, 2010 and 2009, respectively, are comprised of funds related to bond compliance requirements, the balance in the Liability Insurance Plan, 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 $301,000 at June 30, 2010 and approximately $257,000 at June 30, 2009.

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. As the result of the transfer of maintenance operations to Keolis Rail Virginia, all inventory was shifted to VRE's warehouse at Broad Run in June and July 2010. Inventory is stated at cost, which approximates market, and is valued using the first-in-first-out method.

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

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

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

Costs of improvements to track 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, with the exception of software purchases, which are only capitalized if the initial cost is $15,000 or more. The GASB Statement No. 51 accounting and financial reporting requirements for intangible assets were implemented during fiscal year 2010.

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

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

When, in the opinion of management, certain assets are impaired, any estimated decline in value is accounted for as a non-operating expense. There were no impaired assets as of June 30, 2010.

***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.

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

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

Note 2. Cash, Cash Equivalents and Investments

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.

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

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

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, 2010, the book balance of VRE's deposits with banks was $1,437,467; these funds are swept into a U.S. Government Securities money market fund at the end of each business day.

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

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

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

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

At June 30, 2010, VRE had investments of $8,692,280 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, 2010, VRE had $9,511,797 invested in the Insurance Trust.

Accumulated bond interest and principal payments in the amount of $5,980,313 at June 30, 2010 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, 2010, the carrying values and maturity of VRE's investments were as follows:

Investment Type	Fair Value	Maturities Less than 1 Year
LGIP	$ 8,692,280	$ 8,692,280
Insurance trust fund – pooled funds	9,511,797	9,511,797
Money market funds – U. S. Treasuries	5,980,313	5,980,313
Total investments	$ 24,184,390	$ 24,184,390

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	(Deletions) Reclassifications	Ending Balance
Capital assets not being depreciated or amortized:				
Construction in progress	$ 33,842,651	$ 33,882,630	$ (24,907,703)	$ 42,817,578
Capital assets being depreciated and amortized:				
Rolling stock	153,611,395	636,844	21,603,937	175,852,176
Vehicles	45,550	28,612	-	74,162
Facilities	76,785,604	589,083	724,468	78,099,155
Track and signal improvements	52,151,000	-	-	52,151,000
Equipment	7,850,081	38,738	887,502	8,776,321
Equity in local properties	5,244,798	-	-	5,244,798
Furniture, equipment and software	3,314,942	33,868	375,854	3,724,664
Total capital assets being depreciated and amortized	299,003,370	1,327,145	23,591,761	323,922,276
Less accumulated depreciation and amortization for:				
Rolling stock	37,389,117	6,061,113	(181,748)	43,268,482
Vehicles	43,283	3,698	-	46,981
Facilities	16,580,997	2,145,809	(216,628)	18,510,178
Track and signal improvements	10,718,487	1,738,300	-	12,456,787
Equipment	6,151,721	648,323	-	6,800,044
Equity in local properties	2,347,648	149,851	-	2,497,499
Furniture, equipment and software	1,644,755	590,312	-	2,235,067
Total accumulated depreciation and amortization	74,876,008	11,337,406	(398,376)	85,815,038
Total capital assets being depreciated and amortized , net	224,127,362	(10,010,261)	23,990,137	238,107,238
Totals	$ 257,970,013	$ 23,872,369	$ (917,566)	$ 280,924,816

Note 3. Capital Assets (Continued)

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 or amortized:				
Construction in progress	$ 19,461,401	$ 57,521,120	$ (43,139,870)	$ 33,842,651
Capital assets being depreciated or amortized:				
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
Furniture, equipment and software	3,256,370	-	58,572	3,314,942
Total capital assets being depreciated or amortized	276,337,278	2,240,506	20,425,586	299,003,370
Less accumulated depreciation and amortization 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
Furniture, equipment and software	1,372,987	271,768	-	1,644,755
Total accumulated depreciation and amortization	69,505,584	10,445,041	(5,074,617)	74,876,008
Total capital assets being depreciated and amortized , 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 4. Related Party Transactions

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2010 and 2009, these payments included $4,055,250 and $3,988,627 of salary-related costs and $6,138 and $4,801 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 to NVTC during both 2010 and 2009 and $92,345 and $127,178 to PRTC during 2010 and 2009, respectively.

VRE also contracts with PRTC for connecting bus service to selected stations on an as needed basis. PRTC bus service costs amounted to $5,226 and $1,273 in 2010 and 2009, respectively. Amounts payable to NVTC and PRTC were $12,914 and $483,646 at June 30, 2010 and $12,344 and $1,119,232 at June 30, 2009, respectively.

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 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 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/2009-Annual-Report.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 2010 was 11.49 percent of annual covered payroll, inclusive of the 5 percent member contribution, and 0.79 percent for group life insurance. The contribution rate for retirement for fiscal year 2009 was 11.49 percent and 1 percent for group life insurance for July 2009 through March 2010 and 0 percent for April 2010 through June 2010.

C. Annual Pension Cost

For fiscal year 2010, VRE's annual pension cost of $365,253 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 normal 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 payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years. VRE's annual pension cost of $341,017 for fiscal year 2009 and $291,953 for fiscal year 2008 was equal to VRE's actual and required contributions.

Note 5. Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost (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, 2010, 2009 and 2008 was $3,023,072, $2,967,956 and $2,769,945 respectively.

D. Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 97.33 percent funded. The actuarial accrued liability for benefits was $6,996,387 and the actuarial value of assets was $6,809,891, resulting in an unfunded actuarial accrued liability (UAAL) of $186,496. The covered payroll (annual payroll of active employees of the plan) was $5,743,627 and the ratio of the UAAL to the covered payroll was 3.25 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, 2010 and 2009, annual track usage fees totaled approximately $6,139,000 and $5,744,000, respectively, and facility and other identified costs totaled approximately $419,000 and $463,000, respectively.

Under the Purchase of Services Agreement dated March 1, 1998 Amtrak operated and maintained the VRE service and rolling stock, and permitted 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 $21,241,000 in 2010 and $21,206,000 in 2009. The provisions of the 1998 agreement for maintenance of equipment, access to Union Station, and train operations terminated on June 25, June 28 and July 9, 2010, respectively.

A new agreement between Amtrak and the Commissions became effective on June 28, 2010, at an annual fee of $8.8 million, to be adjusted in future years based on changes to various published cost indices. The contract includes $5.2 million for access to and storage of equipment or the annual operation of less than 7,600 or more than 8,000 trains; and $3.6 million for mid-day maintenance, electrical power and other services.

Note 6. Operating Leases and Agreements (Continued)

During fiscal year 2010, the Commissions entered into a contract with Keolis Rail Services Virginia, LLC for train operations and equipment and facilities maintenance for a five year period beginning June 25, 2010, at an annual fee of $16.8 million with adjustments for service additions or deletions and annual changes to the Consumer Price Index. The amount paid to Keolis during fiscal year 2010 for mobilization to establish the new service and the first several days of operations amounted to approximately $2,080,000.

VRE has entered into a series of operating leases with Titan Transit for locomotives. At June 30, 2010, three locomotives were under lease at an annual cost of approximately $203,000. The leases are scheduled to 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, 2010:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue Bonds	$ 34,425,000	$ -	$ (4,935,000)	$ 29,490,000	$ 5,195,000
Capital Leases	21,720,726	-	(945,099)	20,775,627	988,975
Notes Payable	56,622,937	8,951,135	(1,384,221)	64,189,851	1,632,381
	112,768,663	8,951,135	(7,264,320)	114,455,478	7,816,356
Accrued Annual Leave	261,469	240,801	(217,274)	284,996	1,462
	$ 113,030,132	$ 9,191,936	$ (7,481,594)	$ 114,740,474	$ 7,817,818

Revenue Bonds:

$37,625,000 Commuter Rail Revenue Refunding Bonds, series 1993; due in annual maturity of $5,065,000 on July 1, 2010, plus interest at 5.25%	$ 5,065,000
$31,700,000 Commuter Rail Revenue Refunding Bonds, series 1998; due in annual maturities of $130,000 to $6,555,000 through July 1, 2014, plus semi-annual interest at 4.8% to 5.375%	24,425,000
	29,490,000
Plus (less) unamortized:	
Deferred loss	(706,986)
Premiums	159,326
Total bonded debt, net	$ 28,942,340

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 debt service insurance policy guarantees payment of each bond series. Mandatory debt service requirements consist of the following:

Years Ended June 30,	Principal	Interest	Total Required
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	176,166	6,731,166
	$ 29,490,000	$ 4,119,699	$ 33,609,699

Note 7. Long-Term Debt Obligations (Continued)

Deferred bonds, lease, and notes cost, 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 $101,500 and $95,000, is included in interest expense in 2010 and 2009, 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, 2010 and 2009, VRE designated $35,395,025 and $27,932,489 respectively, of its cash, inventory and receivables as this operating reserve. The reserves represented 66.19 percent and 56.18 percent of budgeted operating expenses for June 30, 2010 and 2009, 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, 2010 and 2009, are as follows:

	2010	2009
Bond Interest Fund	$ 785,313	$ 914,568
Bond Principal Fund	5,195,000	4,935,544
Total held by Trustee	$ 5,980,313	$ 5,850,112

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 $23,721,785.	$ 20,775,627

Future minimum lease payments as of June 30, 2010 are as follows:

Years Ended June 30,	Amount
2011	$ 1,931,357
2012	1,931,357
2013	1,931,357
2014	1,931,357
2015	1,931,357
2016-2020	9,656,785
2021-2025	9,656,785
Total minimum lease payments	28,970,355
Lease amount representing interest	8,194,728
Present value of lease payments	$ 20,775,627

Note 7. Long-Term Debt Obligations (Continued)

Notes Payable – Gallery IV (60 cars)

In fiscal year 2009, 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 2010 the terms were amended to include ten additional Gallery railcars. The first 14 of a series of promissory notes were authorized by the end of fiscal year 2010; 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 $48,739 to $146,358 through March 2033, plus quarterly interest at 4.74%	$	8,176,933
$3,069,526 Promissory Note #2; due in quarterly maturities of $17,491 to $52,523 through March 2033; plus quarterly interest at 4.74%		2,934,417
$7,673,804 Promissory Note #3; due in quarterly maturities of $43,727 to $131,304 through March 2033; plus quarterly interest at 4.74%		7,336,033
$7,673,804 Promissory Note #4; due in quarterly maturities of $43,956 to $131,993 through March 2033, plus quarterly interest at 4.74%		7,374,417
$5,400,287 Promissory Note #5; due in quarterly maturities of $30,933 to $92,885 through March 2033, plus quarterly interest at 4.74%		5,189,599
$7,673,834 Promissory Note #6; due in quarterly maturities of $43,956 to $131,992 through March 2033, plus quarterly interest at 4.74%		7,374,446
$7,673,814 Promissory Note #7; due in quarterly maturities of $43,956 to $131,991 through March 2033, plus quarterly interest at 4.74%		7,374,427
$3,073,814 Promissory Note #8; due in quarterly maturities of $17,703 to $53,160 through March 2033, plus quarterly interest at 4.74%		2,970,001
$2,350,000 Promissory Note #9; due in quarterly maturities of $13,686 to $41,096 through March 2033, plus quarterly interest at 4.74%		2,295,977
$3,896,059 Promissory Note #10; due in quarterly maturities of $22,816 to $68,513 through March 2033; plus quarterly interest at 4.74%		3,827,734
$1,989,000 Promissory Note #11; due in quarterly maturities of $11,715 to $35,178 through March 2033; plus quarterly interest at 4.74%		1,965,472
$2,640,000 Promissory Note #12; due in quarterly maturities of $15,644 to $46,977 through March 2033, plus quarterly interest at 4.74%		2,624,541
$2,780,343 Promissory Note #13; due in quarterly maturities of $16,475 to $49,473 through March 2033, plus quarterly interest at 4.74%		2,764,062

Note 7. Long-Term Debt Obligations (Continued)

Notes Payable – Gallery IV (60 cars) (Continued)

$1,541,791 Promissory Note #14; due in quarterly maturities of $9,190 to $27,595 through March 2033, plus quarterly interest at 4.74%	$ 1,541,792
	$ 63,749,851

Mandatory debt service requirements for the first 14 promissory notes consist of the following:

Years Ended June 30,	Principal	Interest	Total Required
2011	$ 1,572,381	$ 2,994,144	$ 4,566,525
2012	1,644,178	2,922,347	4,566,525
2013	1,731,612	2,834,913	4,566,525
2014	1,811,127	2,755,398	4,566,525
2015	1,898,512	2,668,013	4,566,525
2016-2020	10,954,955	11,877,668	22,832,623
2021-2025	13,872,020	8,960,603	22,832,623
2026-2030	17,553,938	5,278,685	22,832,623
2031-2033	12,711,128	988,446	13,699,574
	$ 63,749,851	$ 41,280,217	$ 105,030,068

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 $440,000 and $500,000 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009. The line of credit is in NVTC's name and they are obligated for any outstanding balance.

Note 9. Liability Insurance Plan

VRE is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters. The Virginia Department of Treasury, Division of Risk Management has established the terms of VRE's Commuter Rail Operations Liability Plan (the Insurance Plan). The Insurance Plan consists of a combination of self-insurance reserves and purchased insurance in amounts actuarially determined to meet the indemnification requirements of the Operating Access Agreements and the Purchase of Services Agreement and for liability and property damage. The Commissions indemnify each of the railroads in an amount up to $250,000,000 for any claims against persons or property associated with commuter rail operations. Settled claims have not exceeded commercial coverage during any of the past three fiscal years. The liability for incurred but not reported claims was approximately $283,000 at June 30, 2010 and $254,000 at June 30, 2009.

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2009, 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, 2010 and 2009 was as follows:

	2010	2009
Beginning balance, July 1	$ 8,229,082	$ 7,470,123
Contribution to reserves	5,005,000	4,345,000
Insurance premiums paid	(3,639,323)	(3,017,157)
Claims mitigation costs and losses incurred	(68,329)	(718,544)
Investment income	65,164	241,003
Actuarial and administrative charges	(79,797)	(70,343)
Transfer to VRE for small liability claims	-	(21,000)
Ending balance, June 30	$ 9,511,797	$ 8,229,082

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, 2010, there were disputes between VRE and certain vendors. The amounts of any settlements, should they occur, are not determinable at this time. However, such amounts are not expected to be material in relation to the recorded amounts.

The Commissions have outstanding commitments for construction of facilities and equipment. A combination of Federal (with PRTC as grantee) and Commonwealth of Virginia grants and local funds will be used to finance these capital projects. The following is a summary of the more significant contractual commitments, net of expenditures incurred as of June 30, 2010:

Stations and parking lots	$	1,557,251
Railcars		35,253,954
Maintenance and layover yards		523,793
Track and signal improvements		5,094
Other administrative		577,730
Total	$	37,917,822

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

Note 11. Pending GASB Statement

At June 30, 2010, the Governmental Accounting Standards Board (GASB) had issued a statement not yet implemented by VRE. The statement which might impact VRE is as follows:

GASB Statement No. 59, *Financial Instruments Omnibus,* updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Statement No. 59 will be effective for periods beginning after June 15, 2010.

The effects of adopting this statement on future financial statements have not been determined by management.

Note 12. Subsequent Events

VRE entered into contracts at various times from April 2010 to August 2010 to purchase fuel at set prices for delivery in July 2010 through June 2011. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 1,008,000 gallons of fuel at a cost of approximately $2.4 million.

In July 2010, the Commissions authorized the purchase of four additional locomotives from MotivePower, Inc. for $14.4 million. A fifth locomotive was authorized in October 2010 after funding was identified. These modifications are estimated to increase the contract with MotivePower to 20 locomotives at a total value of $77.5 million. The first locomotive was delivered in June 2010 and the remaining 19 are scheduled to be delivered at the rate of two locomotives per month from December 2010 to September 2011.

Required Supplementary Information

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF FUNDING PROGRESS

Virginia Retirement System

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

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Assets as % of AAL	Covered Payroll	UAAL as a % of Covered Payroll
2009	$ 6,809,891	$ 6,996,387	$ 186,496	97.33%	$ 5,743,627	3.25%
2007	5,875,612	6,065,059	189,447	96.88%	5,369,543	3.53%
2006	4,861,087	4,962,766	101,679	97.95%	5,189,808	1.96%

THIS PAGE NOT USED

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 VRE'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.

Contents **Page**

VIRGINIA RAILWAY EXPRESS

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Operating Revenues:									
Passenger revenue	**$ 30,019,730**	$ 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	**247,375**	124,926	133,242	206,558	442,517	121,373	188,256	292,086	206,796
Total operating revenues	**30,267,105**	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	**13,153,781**	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 - provided by PRTC	**14,525,795**	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	**16,376,968**	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	**10,939,490**	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 - provided by PRTC	**15,437,312**	14,648,460	18,259,459	399,283	550,890	-	-	-	-
Federal grants - other	**402,355**	53,738	959,088	10,363,653	12,245,939	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	**680,631**	1,903,284	925,338	-	-	266,148	3,143,319	457,149	699,375
Interest income:									
Operating funds	**23,893**	129,620	399,553	850,490	367,292	214,888	44,390	87,809	236,488
Insurance trust	**65,164**	241,003	400,204	329,252	721,919	688,816	837,583	1,171,667	1,180,707
Other restrictive funds	**586**	36,232	535,093	41,038	840,383	49,860	-	-	-
Insurance proceeds	-	-	262,676	-	-	-	-	-	-
Total nonoperating revenues	**71,605,975**	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	**101,873,080**	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	**20,291,361**	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	**12,055,009**	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	**9,482,367**	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	**3,864,366**	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	**1,259,048**	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	**5,642,360**	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 and amortization	**11,337,406**	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	**63,931,917**	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	**5,682,935**	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	**393,419**	(4,218,641)	3,176,932	291,306	1,366,531	3,640,928	-	-	-
Total nonoperating expenses, net	**6,076,354**	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	**70,008,271**	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	**$ 31,864,809**	$ 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 2002-2010 are available.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF OUTSTANDING DEBT
Last Nine Fiscal Years
(Unaudited)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenue Bonds:									
$37,625,000 Commuter Rail Revenue Bond, Series 1993	**$ 5,065,000**	$ 9,875,000	$ 14,450,000	$ 18,800,000	$ 22,945,000	$ 26,895,000	$ 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	**24,425,000**	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	**20,775,627**	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	**440,000**	500,000	560,000	605,000	660,000	720,000	780,000	840,000	900,000
$65,989,497 FRA Notes(#1-#14)	**63,749,851**	56,122,937	26,970,555	-	-	-	-	-	-
Outstanding on June 30	**$ 114,455,478**	$ 112,768,663	$ 104,330,112	$ 84,386,707	$ 90,767,224	$ 97,012,951	$ 77,113,938	$ 82,492,656	$ 91,860,970
Debt per Capita:									
Outstanding on June 30	**$ 114,455,478**	$ 112,768,663	$ 104,330,112	$ 84,386,707	$ 90,767,224	$ 97,012,951	$ 77,113,938	$ 82,492,656	$ 91,860,970
Total Participating Jurisdictional Population	**N/A**	N/A	1,953,544	1,931,114	1,912,177	1,887,634	1,859,557	1,828,344	1,797,039
Debt per Capita	**N/A**	N/A	53.41	43.70	47.47	51.39	41.47	45.12	51.12
Outstanding Debt as a Percentage of Personal Income:									
Outstanding on June 30	**N/A**	N/A	$ 104,330,112	$ 84,386,708	$ 90,767,224	$ 97,012,951	$ 77,113,938	$ 82,492,656	$ 91,860,970
Total Personal Income	**N/A**	N/A	123,047,146,000	116,245,177,000	140,070,173,000	103,027,869,000	95,710,712,000	90,296,704,000	86,708,640,000
Total Outstanding Debt as a Percentage of Personal Income	**N/A**	N/A	0.08%	0.07%	0.06%	0.09%	0.08%	0.09%	0.11%

Source: VRE's Audited Financial Statements.

NOTE: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2010 are available.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF JURISDICTIONAL CONTRIBUTIONS
Last Nine Fiscal Years
(Unaudited)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Fairfax County	**$ 4,995,535**	$ 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	**508,503**	482,764	330,713	111,115	73,827	57,544	68,276	79,191	109,519
City of Manassas	**883,443**	938,897	655,077	428,436	276,306	270,924	270,494	286,196	329,215
City of Manassas Park	**537,496**	567,082	359,574	183,686	179,422	149,758	129,178	127,728	135,725
Prince William County	**6,173,028**	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	**2,971,727**	2,974,507	2,429,735	917,147	699,424	609,222	726,297	554,900	613,575
City of Alexandria	**124,737**	118,797	113,140	107,752	102,621	97,734	93,080	88,648	84,427
Arlington County	**182,499**	173,809	165,532	157,649	150,142	142,992	136,183	129,687	123,512
Total contributions	**$ 16,376,968**	$ 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 2002-2010 are available.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF MISCELLANEOUS STATISTICS
Last Nine Fiscal Years
(Unaudited)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Rolling Stock (Owned or Leased)									
Locomotives	**20**	21	18	19	20	20	19	19	19
Railcars	**95**	91	89	90	90	90	90	86	86
Total rolling stock	**115**	112	107	109	110	110	109	105	105
Stations	**18**	18	18	18	18	18	18	18	18
Parking Spaces	**8,508**	8,504	7,284	7,273	7,273	7,009	6,354	5,980	5,980
Employees	**37**	37	37	36	36	34	32	28	28
Ridership and Fare Revenue Data:									
Total Ridership	**4,033,230**	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	**16,673**	15,754	14,662	13,982	14,667	15,238	14,720	13,291	11,467
Average Fare per Trip	**$ 7.44**	$ 6.66	$ 5.98	$ 5.70	$ 5.40	$ 5.17	$ 4.76	$ 4.64	$ 4.54


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

VIRGINIA RAILWAY EXPRESS

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

	2009			2000		
Employers	Rank	Employees	Percentage of Total Jurisdictional Employment	Rank	Employees	Percentage of Total Jurisdictional Employment
Fairfax County Public Schools (1)	1	23,014	N/A	1	19,463	N/A
Federal Government (1)	2	15,393	N/A	2	11,802	N/A
Fairfax County Government (1)	3	11,393	N/A	3	10,243	N/A
US Patent Trademark Office (2)	4	9,000	N/A			
US Department of Defense (2)	5	7,500	N/A	5	7,545	N/A
Inova Health System (1)	6	7,000-10,000	N/A	10	4,000-5,000	N/A
Booz Allen Hamilton (1)	6	7,000-10,000	N/A			N/A
Northrop Grumman (1)	6	7,000-10,000	N/A	10	4,000-5,000	N/A
City of Alexandria (2)	9	2,500	N/A			N/A
Virginia Hospital Center (3)	10	2,354	N/A			
Kaiser Permanente (1)				4	10,000-11,000	N/A
Mobil Corporation (1)				6	6,000-7,000	N/A
Computer Science Corporation (1)				6	6,000-7,000	N/A
Science Applications International Corporation (1)				8	5,000-6,000	N/A
TRW Inc				8	5,000-6,000	N/A

Sources:

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

(1) Fairfax County fiscal year 2009 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 248
(2) City of Alexandria fiscal year 2009 Comprehensive Annual Financial Report, Statistical Section, Table XIX, page 133
(3) Arlington County fiscal year 2009 Comprehensive Annual Financial Report, Statistical Section, Table L, page 177

VIRGINIA RAILWAY EXPRESS

DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS
Fiscal Years 2000 to 2010
(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)
2010 (all categories)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2009								
Population	N/A	364,734	35,883	14,050	122,800	22,818	144,100	209,300
Personal Income (in thousands)	N/A	N/A	$1,063,859	$419,153	$4,759,728	$846,457	$10,178,071	$14,841,044
Per Capita Personal Income	N/A	N/A	$29,648	$29,833	$38,760	$37,096	N/A	$70,908
Unemployment Rate	N/A	5.9%	6.4%	6.5%	5.4%	9.7%	2.8%	4.7%
2008								
Population	1,050,315	359,588	36,666	13,950	121,736	22,410	140,879	208,000
Personal Income (in thousands)	$74,060,459	$17,843,462	$1,059,061	$424,663	$4,625,968	$789,527	$10,204,006	$14,040,000
Per Capita Personal Income	$70,822	$41,945	$28,884	$30,442	$38,000	$35,231	N/A	$67,500
Unemployment Rate	3.4%	3.3%	4.8%	3.2%	3.4%	6.4%	2.9%	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	$1,081,912	$419,253	$4,497,535	$710,837	$9,507,531	$13,004,800
Per capita personal income	$67,691	$40,004	$28,422	$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	$1,066,343	$380,385	$4,207,840	$662,387	$8,835,057	$12,132,694
Per capita personal income	$64,698	$38,728	$28,013	$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%

Sources:

(1) Fairfax County 2009 Comprehensive Annual Financial Report, Statistical Section, Table 4.1, page 247
(2) Prince William County fiscal year 2009 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 167
(3) City of Manassas fiscal year 2009 Comprehensive Annual Financial Report, Statistical Section, Table XII, page 116
(4) City of Manassas Park fiscal year 2009 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 125
(5) Stafford County fiscal year 2009 Comprehensive Annual Financial Report, Statistical Section, Table S-14
(6) City of Fredericksburg fiscal year 2009 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 130
(7) City of Alexandria fiscal year 2009 Comprehensive Annual Financial Report, Statistical Section, Tables XI, XIV & XXI, pages 126, 128 & 136
(8) Arlington County fiscal year 2009 Comprehensive Annual Financial Report, Statistical Section, Table K, page 176

N/A = Not Available

Compliance Section

PBGH
CERTIFIED PUBLIC ACCOUNTANTS
A LIMITED LIABILITY PARTNERSHIP
www.pbgh.com

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, 2010, and have issued our report thereon dated November 10, 2010. 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.

<u>Internal Control Over Financial Reporting</u>

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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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 10, 2010