

Virginia Railway Express

Headquartered in Alexandria, Virginia

A Commuter Rail Service Jointly Owned and Operated by the Northern Virginia Transportation Commission and the Potomac and Rappahannock Transportation Commission



Comprehensive Annual Financial Report

For the years ended **June 30, 2011 & 2010**

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, 2010

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.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

VIRGINIA RAILWAY EXPRESS

Comprehensive Annual Financial Report

YEARS ENDED JUNE 30, 2011 AND 2010



Prepared by:

Department of Finance

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Introductory Section





Virginia Railway Express

A Transportation Partnership

November 10, 2011

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, 2011 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 2011. 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 auditor's report is located at the front of the financial section of this report.

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

Profile of Virginia Railway Express

VRE provides commuter rail service on two railroad lines originating in Fredericksburg and Manassas, Virginia, and terminating at Union Station, Washington, DC. VRE began operations in 1992 with 16 trains and 1,800 average daily riders. During fiscal year 2011, VRE operated 32 trains and served an average daily ridership of 18,377.

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 2011, VRE focused on improving systems that would ensure the future health of the rail line.

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 13 were received and in service by the end of fiscal year 2011. The new locomotives are more fuel efficient and less costly to maintain and will improve service reliability.

Construction of a second platform and overhead pedestrian bridge at the Woodbridge station was completed and opened for service in the early part of the fiscal year. For Fredericksburg line passengers, design work was completed for the expansion of parking at both the Brooke and Leeland stations and the Fredericksburg station renovation was completed and opened for service. 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 also completed during the fiscal year. Work continued on the design of 11 miles of third track in Stafford and Prince William counties, with construction slated to begin in fiscal year 2012.

Work continued on an upgrade to the current fare collection system to ensure compliance with the Payment Card Industry (PCI) standards for data security, with completion scheduled for early in fiscal year 2012. In addition, a requirements study for a new fare collections system was initiated.

The contract with Keolis Rail Services Virginia, LLC for train operations and maintenance service began on June 25, 2010, although Amtrak continued to operate revenue trains for the VRE service through July 9, 2010. After that date, Amtrak provided access to and storage for VRE trains at Union Station in Washington, DC and mid-day mechanical and other services.

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 identified the projected ridership demand through 2025, and the capital and operating expenses necessary to meet the demand. It also examined potential network extensions, their impact on ridership, and the costs of such expansions and provided 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 completed in fiscal year 2011 and is the basis for the annual development of the capital program. 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 has soared, environmental concerns increased, and highways became even more crowded, commuters have been drawn to transit alternatives. For VRE, ridership has been 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 2011. At the same time, the general economic downturn has caused severe financial difficulty for the local, state and federal 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 local 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, 2010. 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. Sharon Bulova, Fairfax County
Vice-Chairman	Hon. Wally Covington, Prince William County
Treasurer	Hon. Susan Stimpson, Stafford County
Secretary	Hon. Paul Smedberg, City of Alexandria

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. Paul Milde, Stafford County
Hon. Suhas Naddoni, City of Manassas Park
Hon. Gary Skinner, Spotsylvania County
Hon. Jonathan Way, City of Manassas
Hon. Christopher Zimmerman, Arlington County

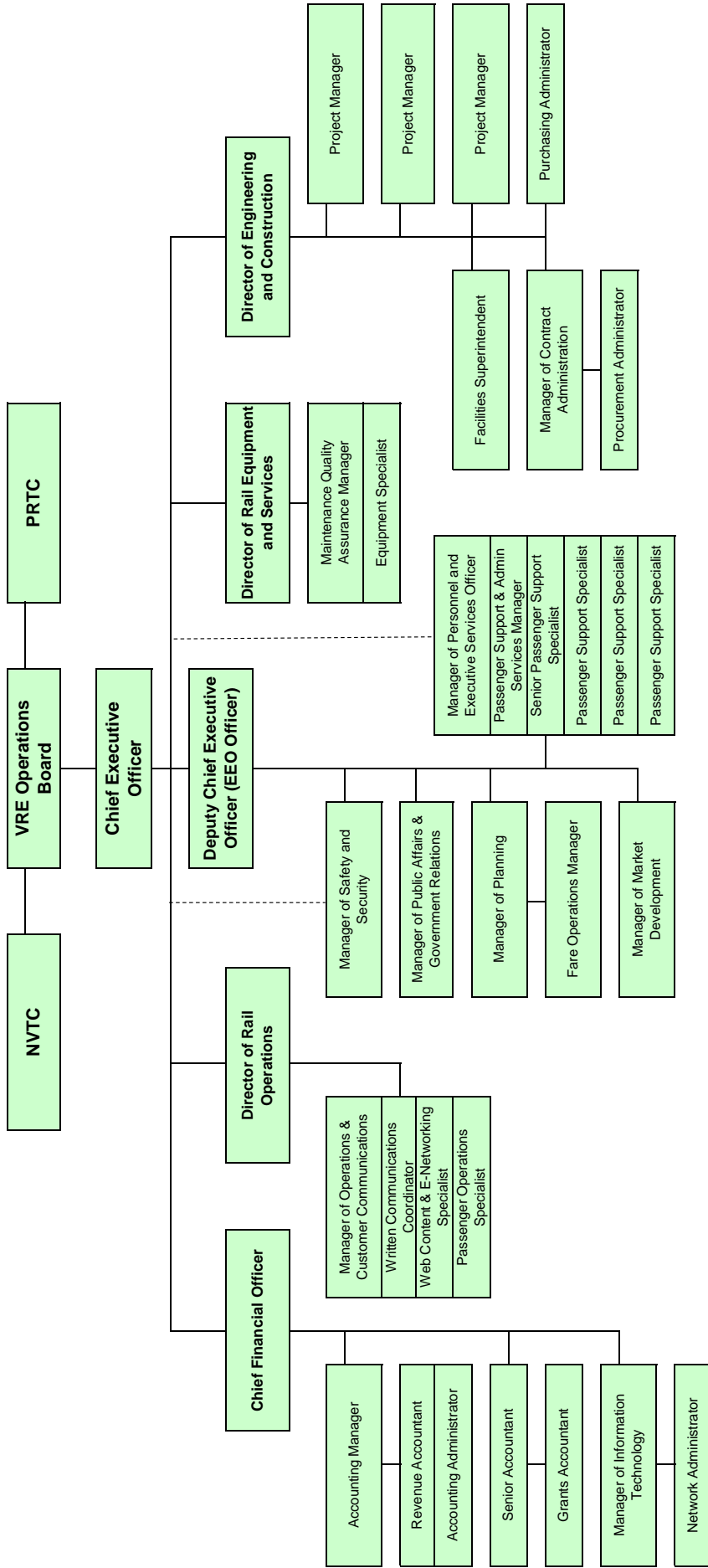
Alternates

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, Engineering and Construction	Sirel Mouchantaf, P.E.

Virginia Railway Express
Organizational Chart
June 2011



Footnote: Manager of Safety and Security reports to the CEO in matters related to safety and security.
 Manager of Personnel reports to the CEO in matters related to EEO.

Financial Section





INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Virginia Railway Express, a joint venture of the Northern Virginia Transportation Commission and the Potomac and Rappahannock Transportation Commission, as of and for the year ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Virginia Railway Express' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Virginia Railway Express' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011 and 2010, 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, 2011 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 40 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

PBGH, LLP

Harrisonburg, Virginia
November 10, 2011



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, 2011. 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 7.6 percent compared to the prior year, from \$30,267,105 to \$32,568,192. Ridership increased by 12.0 percent from 4,033,230 annual trips to 4,517,366. The methodology for calculating passenger trips was changed during fiscal year 2011 to reflect detraining prior to the inner city stations; this contributed to a ridership increase in excess of the increase to revenue.
- Operating expenses increased by 9.6 percent from \$52,594,511 to \$57,628,912 as the result of higher costs for access fees, contract operations and maintenance, and diesel fuel and utilities.
- Non-operating revenue and capital grants increased by 34.6 percent from \$71,605,975 to \$96,406,739. This increase reflects the large federal grants drawn in fiscal year 2011 for the purchase of locomotives (with either PRTC or NVTC as grantee).
- The operating loss before depreciation was \$25,060,720, an increase from the previous year of 12.2 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 \$53,289,381 from \$201,610,330 to \$254,899,711 primarily as the result of capital contributions for construction of locomotives. At the end of the fiscal year, unrestricted net assets were \$27,947,760.
- During the fiscal year, capital assets, net of accumulated depreciation and amortization, increased by 14.7 percent, primarily as the result of progress on the construction of 20 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 21-39 of this report.

Financial Analysis

Statements of Net Assets

As noted earlier, net assets may serve over time as an indicator of financial strength, although other indicators should be considered as well. A condensed summary of VRE's net assets at June 30, 2011, 2010, and 2009 is shown below:

Condensed Statements of Net Assets

	2011	2010	2009
ASSETS:			
Current and other assets	\$ 55,530,425	\$ 52,448,311	\$ 43,704,514
Capital assets, net	322,205,246	280,924,816	257,970,013
Total assets	377,735,671	333,373,127	301,674,527
LIABILITIES:			
Current portion of long-term debt	8,378,899	7,816,356	7,209,050
Other current liabilities	15,119,555	17,571,445	19,665,846
Non-current liabilities	99,337,506	106,374,996	105,054,110
Total liabilities	122,835,960	131,762,797	131,929,006
NET ASSETS:			
Invested in capital assets, net of related debt	210,039,494	163,430,867	143,176,616
Restricted	16,912,457	15,526,729	14,273,387
Unrestricted	27,947,760	22,652,734	12,295,518
Total net assets	\$ 254,899,711	\$ 201,610,330	\$ 169,745,521

Current Year

Net assets increased by approximately \$53.3 million, or 26.4 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, \$210.0 million or 82.4 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 local support since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

A portion of VRE's net assets, \$16.9 million or 6.6 percent represents resources that are restricted for the liability insurance plan, debt service, and the purchase of replacement rolling stock.

Capital assets, net of accumulated depreciation and amortization, increased approximately \$41.3 million or 14.7 percent as the result of rolling stock and facilities additions.

Current liabilities decreased approximately \$1.9 million or 7.4 percent as the result of a decrease to accrued expense related to a \$1.5 million payment to Amtrak for VRE's share of a retroactive wage settlement and accrued payments for the purchase of rolling stock combined with an increase to contract retainage.

Noncurrent liabilities decreased approximately \$7.0 million or 6.6 percent because of scheduled bond and note repayments during the year.

Restricted net assets increased approximately \$1.4 million or 8.9 percent.

Prior Year

Net assets increased by approximately \$31.9 million, or 18.8 percent during the prior fiscal year, due mainly to capital contributions that were used to fund rolling stock and facilities improvements.

The largest portion of VRE's net assets, \$163.4 million or 81.1 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, \$15.5 million or 7.7 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 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.

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.

	2011	2010	2009
Operating revenues:			
Passenger revenue	\$ 32,368,123	\$ 30,019,730	\$ 25,909,794
Equipment rentals and other	200,069	247,375	124,926
Total operating revenues	32,568,192	30,267,105	26,034,720
Non-operating revenues and capital grants:			
Subsidies and grants:			
Commonwealth of Virginia	20,313,115	24,093,271	25,711,262
Federal – with PRTC as grantee	56,293,414	29,963,107	27,432,583
Federal – NVTC and other	3,308,513	402,355	53,738
Pass-through to Fairfax County	-	-	(4,456,818)
Jurisdictional contributions	16,070,307	16,376,968	17,275,500
In-kind and local contributions	406,331	680,631	1,903,284
Interest income	15,059	89,643	406,855
Total non-operating revenues and capital grants	96,406,739	71,605,975	68,326,404
Total revenues	128,974,931	101,873,080	94,361,124
Operating expenses:			
Contract operations and maintenance	21,405,930	20,291,361	18,694,757
Other operations and maintenance	12,949,155	12,055,009	12,575,004
Property leases and access fees	11,756,531	9,482,367	8,686,385
Insurance	4,049,906	3,864,366	3,866,438
Marketing and sales	1,502,434	1,259,048	1,477,554
General and administrative	5,964,956	5,642,360	5,492,566
Total operating expenses	57,628,912	52,594,511	50,792,704
Other expenses:			
Depreciation and amortization	12,218,203	11,337,406	10,445,041
Interest, financing costs and other	5,566,829	5,682,935	6,014,243
Total other expenses	17,785,032	17,020,341	16,459,284
Total expenses	75,413,944	69,614,852	67,251,988
Revenues over expenses before special items	53,560,987	32,258,228	27,109,136
Special item – gain (loss) on disposal of assets	(271,606)	(393,419)	4,218,641
Change in net assets	53,289,381	31,864,809	31,327,777
Net assets - beginning of year	201,610,330	169,745,521	138,417,744
Net assets - end of year	\$ 254,899,711	\$ 201,610,330	\$ 169,745,521

Revenues

Current Year

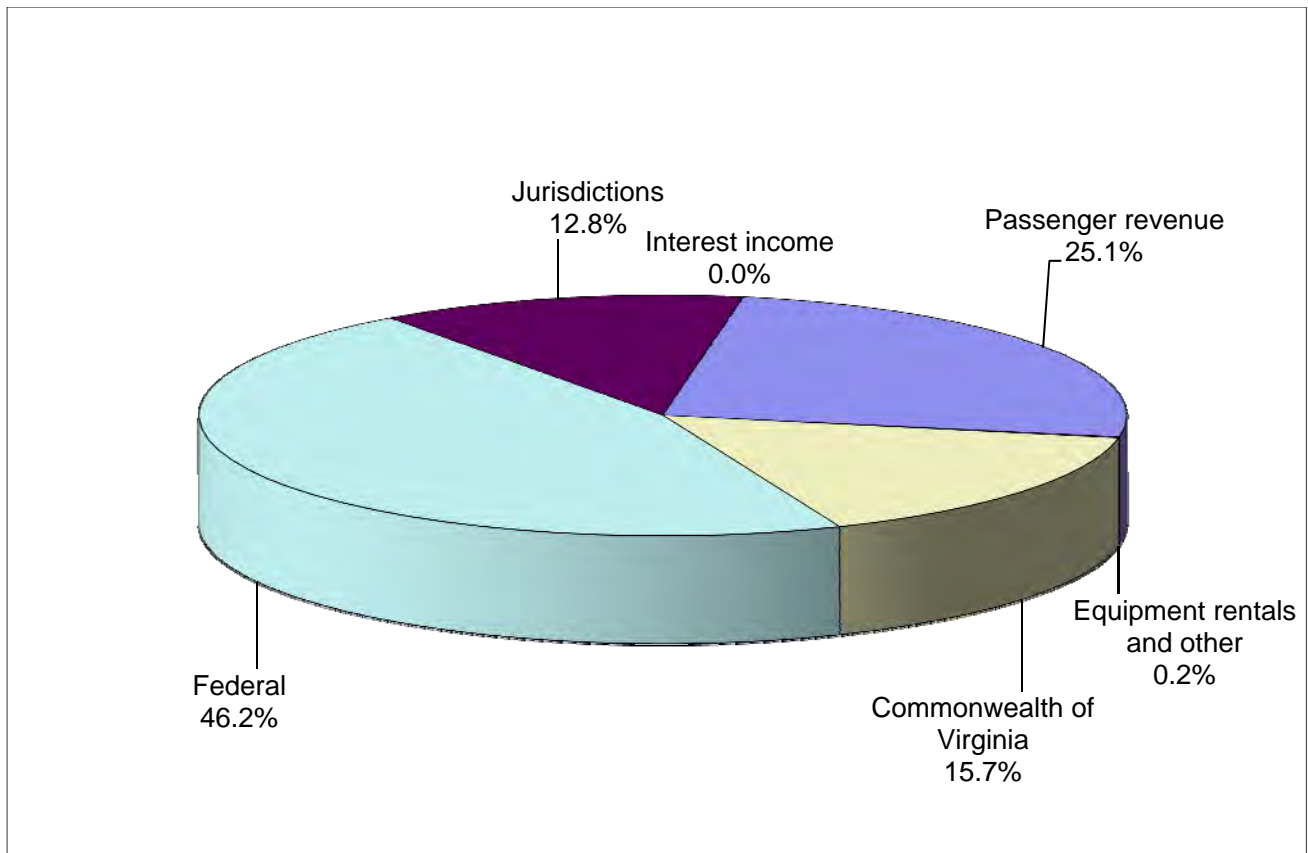
Total revenues for the current fiscal year increased approximately \$27.1 million or 26.6 percent. Operating revenues totaled \$32.6 million, an increase of 7.6 percent from the prior year.

Passenger revenue increased approximately \$2.3 million or 7.8 percent as the result of an increase in ridership.

	June 30,		
	2011	2010	2009
Ridership	4,517,366	4,033,230	3,857,646
% Increase (Decrease)	12%	4.6%	6.3%

Subsidies and capital grants increased approximately \$25.5 million or 46.7 percent; this increase reflects the grants for the purchase of locomotives. Jurisdictional subsidies decreased approximately \$.3 million or 1.9 percent. In addition, VRE received \$.4 million of in-kind and local contributions.

The following chart shows the major sources of revenues for the year ended June 30, 2011:



Prior Year

Total revenues for the prior 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.

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.

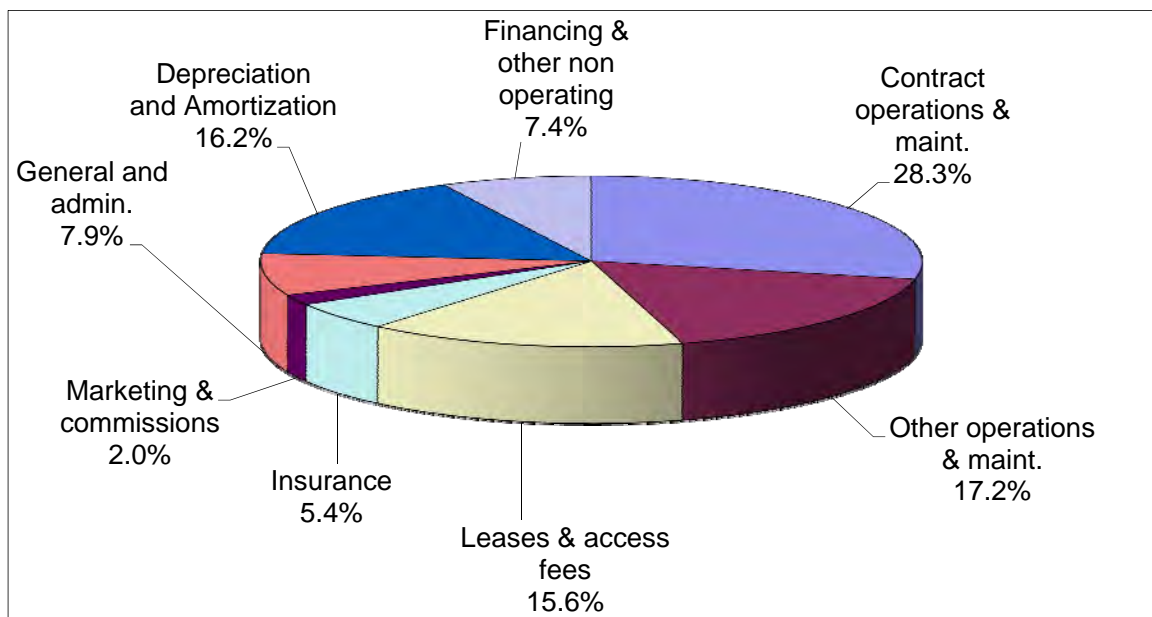
Expenses

Current Year

Total operating and other expenses, including depreciation and amortization, increased approximately \$5.8 million or 8.3 percent. Operating expenses increased by \$5 million or 9.6 percent. Total operating expenses were approximately \$57.6 million compared to approximately \$52.6 million for the prior fiscal year.

Property leases and access fees increased by approximately \$2.3 million or 24.0 percent as the result of regular contractual increases and a new contract with Amtrak for access to Union Station. Contracted operation and maintenance costs increased by approximately \$1.1 million or 5.5 percent because of the inclusion in the new contract of certain liability insurance costs and warehouse and facilities services and additional costs for maintenance of the older locomotives. Diesel fuel and utility costs combined were higher than the amounts for the prior year by approximately \$1 million or 22.2 percent, primarily as the result of substantial increases to the price of diesel fuel and the use of stand-by power for idling locomotives. Ticket sales expense increased by \$.12 million or 14.5 percent as the result of higher ticket sales, insurance costs increased by \$.19 million or 4.8 percent and professional services increased by \$.21 million or 43.4% for several grant funded studies and construction oversight. Depreciation and amortization increased by approximately \$.88 million or 7.8 percent and net interest and financing costs decreased by \$.11 million or 2 percent.

The following chart shows the major expense categories for the year ended June 30, 2011:



Prior Year

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 fiscal year 2009.

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.

Capital Assets and Debt Administration

Capital Assets

VRE's investment in capital assets as of June 30, 2011 amounts to \$322 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.

	2011	2010	2009
Rolling stock	\$ 218,390,607	\$ 175,852,176	\$ 153,611,395
Vehicles	99,832	74,162	45,550
Facilities	92,335,553	78,099,155	76,785,604
Track and signal improvements	52,684,367	52,151,000	52,151,000
Equipment and software	8,393,438	8,776,321	7,850,081
Construction in progress	31,683,346	42,817,578	33,842,651
Equity in local properties	5,244,798	5,244,798	5,244,798
Furniture, equipment and software	3,760,116	3,724,664	3,314,942
	<u>412,592,057</u>	<u>366,739,854</u>	<u>332,846,021</u>
Less accumulated depreciation and amortization	(90,386,811)	(85,815,038)	(74,876,008)
Total capital assets, net	<u>\$ 322,205,246</u>	<u>\$ 280,924,816</u>	<u>\$ 257,970,013</u>

Current Year

During fiscal year 2011, net investment in capital assets increased approximately \$41.3 million or 14.7 percent. Completed projects totaling approximately \$65 million were closed from construction in progress to their respective capital accounts and an additional \$.19 million was charged directly to the capital accounts.

The major completed projects were: manufacture of 13 new locomotives (\$50.8 million); construction of a second platform and pedestrian overpass at the Woodbridge station (\$6.1 million); Fredericksburg station viaduct and platform rehabilitation (\$2.2 million); and the construction of a maintenance facility at the Broad Run yard (\$5.8 million). Seven older locomotives were sold during the year for a combined net loss on sale in the amount of approximately \$270,000. The major additions to construction in progress during the fiscal year were for the acquisition of new locomotives, and improvements to the stations and yards.

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

Prior 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.

Debt Administration

At June 30, 2011, VRE had total debt outstanding of \$107,767,263. 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, but both NVTC and PRTC are signatories on each note. The notes are secured by the revenues of VRE and the rolling stock.

	2011	2010	2009
Revenue bonds	\$ 24,295,000	\$ 29,490,000	\$ 34,425,000
Capital leases	19,786,652	20,775,627	21,720,726
Notes payable (includes RRIF)	63,685,611	64,189,851	56,622,937
Total	\$ 107,767,263	\$ 114,455,478	\$ 112,768,663

VRE has access to a line of credit of up to \$1 million with SunTrust Bank; the line was not utilized during 2011. 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.

No general fare increase was budgeted for fiscal year 2012. The local subsidy for fiscal year 2012 was reduced by \$126,391 to a total of \$15,943,916, a reflection of the decline in local jurisdiction revenue. The level of state funding for transportation continues to be volatile and the level of federal formula funding may be considerably more variable than it has been in the past.

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, 2011 and 2010

ASSETS	2011	2010
Current Assets:		
Cash and cash equivalents	\$ 9,921,706	\$ 10,042,748
Accounts receivable:		
Due from PRTC – funded by FTA	14,533,706	13,843,349
Federal grants - other	121,412	190,368
Commonwealth of Virginia grants	3,640,249	2,959,930
Trade receivables, net of allowance for doubtful accounts	3,689,528	4,036,020
Other receivables	237,667	104,958
Inventory	4,715,458	3,445,580
Prepaid expenses and other	465,647	772,322
Restricted cash, cash equivalents and investments	16,808,248	15,579,409
Total current assets	54,133,621	50,974,684
Noncurrent Assets:		
Deferred bond and lease costs, net	1,396,804	1,473,627
Capital assets:		
Rolling stock	218,390,607	175,852,176
Vehicles	99,832	74,162
Facilities	92,335,553	78,099,155
Track and signal improvements	52,684,367	52,151,000
Equipment and software	8,393,438	8,776,321
Construction in progress	31,683,346	42,817,578
Equity in local properties	5,244,798	5,244,798
Furniture, equipment and software	3,760,116	3,724,664
	412,592,057	366,739,854
Less accumulated depreciation and amortization	(90,386,811)	(85,815,038)
Total capital assets, net	322,205,246	280,924,816
Total noncurrent assets	323,602,050	282,398,443
Total assets	\$ 377,735,671	\$ 333,373,127

LIABILITIES AND NET ASSETS	2011	2010
Current Liabilities:		
Accounts payable	\$ 2,675,346	\$ 3,386,946
Accounts payable – rolling stock	1,092,856	1,609,565
Payable to Commissions	847,743	496,560
Compensated absences	2,757	1,462
Accrued expenses	4,610,277	7,978,407
Accrued interest	926,658	1,065,082
Unearned revenue	1,293,177	1,056,857
Contract retainage	3,670,741	1,976,566
Notes payable	1,734,009	1,632,381
Current portion of capital lease obligations	1,034,890	988,975
Current portion of bonds payable	5,610,000	5,195,000
Total current liabilities	23,498,454	25,387,801
Noncurrent Liabilities:		
Capital lease obligations	18,751,762	19,786,652
Notes payable	61,951,602	62,557,470
Bonds payable, net	18,319,892	23,747,340
Compensated absences	314,250	283,534
Total noncurrent liabilities	99,337,506	106,374,996
Total liabilities	122,835,960	131,762,797
Net Assets:		
Invested in capital assets, net of related debt	210,039,494	163,430,867
Restricted for liability insurance plan	10,052,968	9,511,797
Restricted for debt service and capital lease	6,259,239	5,980,313
Restricted grants or contributions	600,250	34,619
Unrestricted assets	27,947,760	22,652,734
Total net assets	254,899,711	201,610,330
Total liabilities and net assets	\$ 377,735,671	\$ 333,373,127

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues:		
Passenger revenue	\$ 32,368,123	\$ 30,019,730
Equipment rentals and other	200,069	247,375
	<u>32,568,192</u>	<u>30,267,105</u>
Total operating revenues	32,568,192	30,267,105
Operating Expenses:		
Contract operations and maintenance	21,405,930	20,291,361
Other operations and maintenance	12,949,155	12,055,009
Property leases and access fees	11,756,531	9,482,367
Insurance	4,049,906	3,864,366
Marketing and sales	1,502,434	1,259,048
General and administrative	5,964,956	5,642,360
	<u>57,628,912</u>	<u>52,594,511</u>
Total operating expenses	57,628,912	52,594,511
Operating loss before depreciation and amortization	(25,060,720)	(22,327,406)
Depreciation and amortization	<u>(12,218,203)</u>	<u>(11,337,406)</u>
Operating loss	(37,278,923)	(33,664,812)
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	12,806,509	13,153,781
Federal grants – with PRTC as grantee	16,157,284	14,525,795
Jurisdictional contributions	16,070,307	16,376,968
Interest income:		
Operating funds	14,675	23,893
Insurance trust	-	65,164
Other restricted funds	384	586
Interest, amortization and other nonoperating expenses, net	<u>(5,566,829)</u>	<u>(5,682,935)</u>
Total nonoperating revenues, net	39,482,330	38,463,252
Capital grants and assistance:		
Commonwealth of Virginia grants	7,506,606	10,939,490
Federal grants – with PRTC as grantee	40,136,130	15,437,312
Federal grants – NVTC and other	3,308,513	402,355
Other local contributions	406,331	680,631
	<u>51,357,580</u>	<u>27,459,788</u>
Total capital grants and assistance	51,357,580	27,459,788
Loss on disposal of assets	<u>(271,606)</u>	<u>(393,419)</u>
Change in net assets	53,289,381	31,864,809
Net Assets, beginning	<u>201,610,330</u>	<u>169,745,521</u>
Net Assets, ending	<u>\$ 254,899,711</u>	<u>\$ 201,610,330</u>

VIRGINIA RAILWAY EXPRESS
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities:		
Receipts from customers	\$ 33,206,301	\$ 30,393,082
Payments to suppliers	(58,125,397)	(48,894,869)
Payments to employees	(3,759,123)	(4,660,169)
Net cash used in operating activities	(28,678,219)	(23,161,956)
Cash Flows From Noncapital Financing Activities:		
Governmental subsidies	46,219,491	44,513,699
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(51,928,553)	(26,997,485)
Capital grants and assistance	48,635,100	23,537,414
Proceeds from sale of capital assets	150,000	300,000
Principal paid on capital lease obligations	(988,975)	(945,099)
Principal paid on notes	(1,654,016)	(1,384,221)
Principal paid on bonds	(5,195,000)	(4,935,000)
Interest paid on capital lease obligation	(942,382)	(986,259)
Interest paid on bonds and notes	(4,525,203)	(4,637,040)
Net cash used in capital and related financing activities	(16,449,029)	(16,047,690)
Cash Flows From Investing Activities:		
Interest received on investments	15,054	89,724
Increase in cash and cash equivalents	1,107,297	5,393,777
Cash and Cash Equivalents, beginning	25,622,157	20,228,380
Cash and Cash Equivalents, ending	\$ 26,729,454	\$ 25,622,157
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:		
Operating loss	\$ (37,278,923)	\$ (33,664,812)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	12,218,203	11,337,406
Loss on disposal of assets	34,505	44,780
(Increase) decrease in:		
Accounts receivable	346,492	90,911
Other receivables	55,297	(83,696)
Inventory	(1,269,878)	(77,041)
Prepaid expenses and other	306,675	(223,951)
Increase (decrease) in:		
Accounts payable and accrued expenses	(3,326,910)	(704,315)
Unearned revenue	236,320	118,762
Net cash used in operating activities	\$ (28,678,219)	\$ (23,161,956)
Schedule of Noncash Capital Activities		
Capital assets acquired through accounts payable	\$ 1,609,739	\$ 2,441,232
Capital assets acquired through notes payable	1,149,776	8,951,135
Capital assets acquired through accrued liabilities	2,875,831	2,909,466
Capital assets acquired through in-kind contributions	197,367	341,344
\$ 5,832,713	\$ 14,643,177	

VIRGINIA RAILWAY EXPRESS

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 an agreement between the Commissions and Keolis Rail Services Virginia, LLC and Amtrak provides the Commissions with access to and storage and other services at Union Station.

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 transaction related to the commuter rail program are combined in this report. In addition, an allocation of the VRE assets and obligations are reflected in the financial reports of the Commissions.

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The system is not currently configured for fare revenues alone to produce positive operating income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds, a federal loan, 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 2009. 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.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. VRE has elected not to follow subsequent private-sector guidance.

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

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

Revenue recognition: Intergovernmental revenues, consisting primarily of Federal (with PRTC as grantee) and Commonwealth of Virginia (with NVTC as grantee) grants, designated for payment of specific expenses, are recognized at the time 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 \$16,808,248 and \$15,579,409 at June 30, 2011 and 2010, respectively, are comprised of funds related to bond compliance requirements, the balance in the Liability Insurance Plan, proceeds from the sale of rolling stock and a small liability claims account.

Allowance for uncollectible accounts: VRE calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance was \$324,000 at June 30, 2011 and \$301,000 at June 30, 2010.

Inventory: VRE has purchased an inventory of spare parts for rolling stock that is maintained and managed at the Commission’s warehouse located at Broad Run. As the result of the transfer of maintenance operations to Keolis Rail Services Virginia, inventory that was previously maintained by Amtrak was shifted to the VRE warehouse in June and July 2010. Inventory is stated at cost, which approximates market, and is valued using the first-in-first-out method.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

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

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

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

Costs of improvements to track, stations and signal facilities owned by the railroads have been capitalized in recognition of the increased efficiency afforded VRE operations over their useful lives. The Commissions retain a residual interest in these assets such that net salvage value will be reimbursed by the railroads upon cessation of commuter rail service. Similarly, shared 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.

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

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

Rolling stock	8-40 years
Vehicles	5 years
Facilities	30-40 years
Track and signal improvements	30 years
Equipment and software	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, 2011.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

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

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

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

Note 2. Cash, Cash Equivalents and Investments

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

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

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

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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

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

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

Custodial credit risk: For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, VRE may not recover its deposits. All cash of VRE is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board. If any member bank fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. With the ability to make additional assessments, the multiple bank collateral pool functions similarly to depository insurance. The Commonwealth of Virginia Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act. At June 30, 2011, the book balance of VRE's deposits with banks was \$830,025; these funds are swept into a U.S. Government Securities money market fund at the end of each business day.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

Investment	Length of Maturity	Percent Allowed
Bonds, notes, and other evidence of indebtedness of the United States	60 months or less	100%
Bonds, notes, and other evidence of indebtedness of the Commonwealth of Virginia	60 months or less	100%
Bonds, notes, and other evidence of indebtedness of any county, city, town, district, authority or	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%

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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

At June 30, 2011, VRE had investments of \$9,587,421 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, 2011, VRE had \$10,052,968 invested in the Insurance Trust. Beginning with fiscal year 2011, any earnings on these investments are retained by the Commonwealth of Virginia.

Accumulated bond interest and principal payments in the amount of \$6,259,239 at June 30, 2011 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, 2011, the carrying values and maturity of VRE's investments were as follows:

Investment Type	Fair Value	Maturities Less than 1 Year
LGIP	\$ 9,587,421	\$ 9,587,421
Insurance trust fund – pooled funds	10,052,968	10,052,968
Money market funds – U. S. Treasuries	6,259,239	6,259,239
Total investments	\$ 25,899,628	\$ 25,899,628

Subsequent to year-end, Standard & Poor's downgraded the credit quality of the debt of the United States to AA+ which affects the assets held by the LGIP and the money market funds at SunTrust Bank and U.S. Bank. The rating assigned to all of these funds by Standard & Poor's has remained at AAAM. Fitch Ratings and Moody's Investors Services have affirmed their AAA rating for the United States but Moody's has left the debt on "outlook negative."

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	(Deletions) Reclassifications	Ending Balance
Capital assets not being depreciated or amortized:				
Construction in progress	\$ 42,817,578	\$ 53,913,536	\$ (65,047,768)	\$ 31,683,346
Capital assets being depreciated or amortized:				
Rolling stock	175,852,176	-	42,538,431	218,390,607
Vehicles	74,162	25,670	-	99,832
Facilities	78,099,155	-	14,236,398	92,335,553
Track and signal improvements	52,151,000	-	533,367	52,684,367
Equipment and software	8,776,321	130,086	(512,969)	8,393,438
Equity in local properties	5,244,798	-	-	5,244,798
Furniture, equipment and software	3,724,664	35,452	-	3,760,116
Total capital assets being depreciated or amortized	323,922,276	191,208	56,795,227	380,908,711
Less accumulated depreciation or amortization for:				
Rolling stock	43,268,482	7,106,819	(7,619,521)	42,755,780
Vehicles	46,981	4,145	-	51,126
Facilities	18,510,178	2,368,298	-	20,878,476
Track and signal improvements	12,456,787	1,818,305	-	14,275,092
Equipment and software	6,800,044	536,814	(26,909)	7,309,949
Equity in local properties	2,497,499	149,851	-	2,647,350
Furniture, equipment and software	2,235,067	233,971	-	2,469,038
Total accumulated depreciation or amortization	85,815,038	12,218,203	(7,646,430)	90,386,811
Total capital assets being depreciated or amortized, net	238,107,238	(12,026,995)	64,441,657	290,521,900
Totals	\$ 280,924,816	\$ 41,886,541	\$ (606,111)	\$ 322,205,246

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets (Continued)

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 or 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 and software	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 or amortized	299,003,370	1,327,145	23,591,761	323,922,276
Less accumulated depreciation or 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 and software	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 or amortization	74,876,008	11,337,406	(398,376)	85,815,038
Total capital assets being depreciated or 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 4. Related Party Transactions

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2011 and 2010, these payments included \$4,142,917 and \$4,055,280 of salary-related costs and \$4,925 and \$6,138 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 \$70,018 and \$70,000 to NVTC and \$78,254 and \$92,345 to PRTC during 2011 and 2010, respectively.

VRE also contracts with PRTC for connecting bus service to selected stations on an as needed basis. PRTC bus service costs amounted to approximately \$9,577 and \$5,226 in 2011 and 2010, respectively. Amounts payable to NVTC and PRTC were \$12,314 and \$835,429 at June 30, 2011 and \$12,914 and \$483,646, respectively, at June 30, 2010.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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 VRE employees are automatically covered by VRS upon employment through PRTC. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRE service as credit in their plan.

VRS administers two defined benefit plans for VRE (PRTC) employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for VRE (PRTC) members is 1.70 percent. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00 percent; under Plan 2, the COLA cannot exceed 6.00 percent. During years of no inflation or deflation, the COLA is 0.00 percent. 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 which includes financial statements and required supplementary information for VRS. A copy of that report may be obtained from their website at <http://www.varetire.org/Pdf/Publications/2010-Annual-Report.pdf> or obtained by writing to the system's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Defined Benefit Pension Plan (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5 percent of their compensation toward their retirement. All or part of the 5 percent member contribution may be assumed by the employer. 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 the fiscal year ended June 30, 2011 was 10.92 percent of annual covered payroll, *inclusive of the 5 percent member contribution, and VRE also contributed 0.28 percent for group life insurance.*

C. Annual Pension Cost

For fiscal year 2011, VRE's annual pension cost of \$334,185 was equal to the VRE's required and actual contributions.

Three-Year Trend Information for VRE

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	\$341,017	100.0%	\$ -
June 30, 2010	365,253	100.0%	-
June 30, 2011	334,185	100.0%	-

The fiscal year 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 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 for general government employees and 3.50 percent to 4.75 percent for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, 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 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. PRTC's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Defined Benefit Pension Plan (Continued)

D. Funded Status and Funding Process

As of June 30, 2010, the most recent actuarial valuation date, the plan was 87.87 percent funded. The actuarial accrued liability for benefits was \$8,539,776 and the actuarial value of assets was \$7,503,689, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,036,087. The covered payroll (annual payroll of active employees of the plan) was \$5,733,383 and the ratio of the UAAL to the covered payroll was 18.07 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 (AAL) for benefits.

Note 6. Operating Leases and Agreements

Operating Access Agreements with the CSX and Norfolk Southern railroads provide the Commissions the right to use tracks owned by the railroads in the provision of commuter rail passenger service. These agreements require the Commissions to pay the railroads a monthly base fee and to reimburse the railroads for any incremental cost incurred by the railroads as a result of providing tracks for commuter rail service. For the years ended June 30, 2011 and 2010, annual track usage fees totaled approximately \$6,210,000 and \$6,139,000, respectively, and facility and other identified costs totaled approximately \$454,000 and \$419,000, respectively.

Under the former 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. 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.

The new agreement between Amtrak and the Commissions for access to and storage of equipment at Union Station and mid-day maintenance, electrical power and other services became effective on June 28, 2010. Actual cost for the year ended June 30, 2011 was approximately \$8,759,000. Costs in future years will be adjusted based on changes to various published costs indices and the number of trains that have access to and are stored and serviced at the terminal.

During fiscal year 2010 the Commissions entered into a contract with Keolis Rail Services Virginia, LLC for train operations and maintenance for a five year period beginning June 25, 2010. 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. The actual cost of train operations and maintenance for the year ended June 30, 2011, based on an annual budget prepared in advance, was approximately \$18,151,000, including a small amount for the completion of mobilization services. Costs in future years will be adjusted for service additions or deletions and annual changes to the Consumer Price Index.

VRE has entered into a series of operating leases with Titan Transit for locomotives. For the years ended June 30, 2011 and 2010, lease costs totaled approximately \$168,000 and \$183,000, respectively. These leases are scheduled to terminate during the first quarter of fiscal year 2012.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt Obligations

The following is a summary of long-term liability activity for the year ended June 30, 2011:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue Bonds	\$ 29,490,000	\$ -	\$ (5,195,000)	\$ 24,295,000	\$ 5,610,000
Capital Leases	20,775,627	-	(988,975)	19,786,652	1,034,890
Notes Payable	64,189,851	1,149,776	(1,654,016)	63,685,611	1,734,009
	114,455,478	1,149,776	(7,837,991)	107,767,263	8,378,899
Compensated Absences	284,996	250,968	(218,957)	317,007	2,757
	<u>\$ 114,740,474</u>	<u>\$ 1,400,744</u>	<u>\$ (8,056,948)</u>	<u>\$ 108,084,270</u>	<u>\$ 8,381,656</u>

Revenue Bonds:

\$31,700,000 Commuter Rail Revenue Refunding Bonds, series 1998; due in annual maturities of \$5,610,000 to \$6,555,000 through July 1, 2014, plus semi-annual interest at 5.375%.

\$ 24,295,000

Plus (less) unamortized:

Deferred loss

(471,325)

Premiums

106,217

Total bonded debt, net

\$ 23,929,892

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

Years Ended June 30,	Principal	Interest	Total Required
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
	<u>\$ 24,295,000</u>	<u>\$ 2,685,154</u>	<u>\$ 26,980,154</u>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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 \$76,700 and \$101,500, are included in interest expense in 2011 and 2010, 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, 2011 and 2010, VRE designated \$37,325,284 and \$35,395,025 respectively, of its cash, inventory and receivables as this operating reserve. The reserves represented 64.90 percent and 66.19 percent of budgeted operating expenses for June 30, 2011 and 2010, 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, 2011 and 2010, are as follows:

	2011	2010
Bond Interest Fund	\$ 649,234	\$ 785,313
Bond Principal Fund	5,610,005	5,195,000
Total held by Trustee	<u>\$ 6,259,239</u>	<u>\$ 5,980,313</u>

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 \$22,827,036. \$ 19,786,652

Future minimum lease payments as of June 30, 2011 are as follows:

Years Ended June 30,	Amount
2012	\$ 1,931,357
2013	1,931,357
2014	1,931,357
2015	1,931,357
2016	1,931,357
2017-2021	9,656,785
2022-2025	<u>7,725,428</u>
Total minimum lease payments	27,038,998
Lease amount representing interest	7,252,346
Present value of lease payments	<u>\$ 19,786,652</u>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt Obligations (Continued)

Notes Payable – Gallery IV (60 cars)

In fiscal year 2010, 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 2011 the terms were amended to include ten additional Gallery railcars. The first 15 of a series of promissory notes were authorized by the end of fiscal year 2011; 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 \$51,149 to \$146,358 through March 2033, plus quarterly interest at 4.74%	\$	7,975,251
\$3,069,526 Promissory Note #2; due in quarterly maturities of \$18,356 to \$52,523 through March 2033, plus quarterly interest at 4.74%		2,862,040
\$7,673,804 Promissory Note #3; due in quarterly maturities of \$45,889 to \$131,304 through March 2033, plus quarterly interest at 4.74%		7,155,091
\$7,673,804 Promissory Note #4; due in quarterly maturities of \$46,129 to \$131,993 through March 2033, plus quarterly interest at 4.74%		7,192,528
\$5,400,287 Promissory Note #5; due in quarterly maturities of \$32,462 to \$92,885 through March 2033, plus quarterly interest at 4.74%		5,061,599
\$7,673,834 Promissory Note #6; due in quarterly maturities of \$46,129 to \$131,992 through March 2033, plus quarterly interest at 4.74%		7,192,556
\$7,673,814 Promissory Note #7; due in quarterly maturities of \$46,129 to \$131,991 through March 2033, plus quarterly interest at 4.74%		7,192,537
\$3,073,814 Promissory Note #8; due in quarterly maturities of \$18,578 to \$53,160 through March 2033, plus quarterly interest at 4.74%		2,896,747
\$2,350,000 Promissory Note #9; due in quarterly maturities of \$14,362 to \$41,096 through March 2033, plus quarterly interest at 4.74%		2,239,347
\$3,896,059 Promissory Note #10; due in quarterly maturities of \$23,943 to \$68,513 through March 2033, plus quarterly interest at 4.74%		3,733,323
\$1,989,000 Promissory Note #11; due in quarterly maturities of \$12,295 to \$35,178 through March 2033, plus quarterly interest at 4.74%		1,916,994
\$2,640,000 Promissory Note #12; due in quarterly maturities of \$16,417 to \$46,977 through March 2033, plus quarterly interest at 4.74%		2,559,808
\$2,780,343 Promissory Note #13; due in quarterly maturities of \$17,290 to \$49,473 through March 2033, plus quarterly interest at 4.74%		2,695,887

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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 \$9,644 to \$27,595 through March 2033, plus quarterly interest at 4.74%	\$	1,503,763
\$1,149,776 Promissory Note #15; due in quarterly maturities of \$7,235 to \$20,704 through March 2033, plus quarterly interest at 4.74%		<u>1,128,140</u>
	\$	<u>63,305,611</u>

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

Years Ended June 30,	Principal	Interest	Total Required
2012	\$ 1,674,009	\$ 2,975,370	\$ 4,649,379
2013	1,763,030	2,886,349	4,649,379
2014	1,843,988	2,805,391	4,649,379
2015	1,932,958	2,716,421	4,649,379
2016	2,022,564	2,626,815	4,649,379
2017-2021	11,698,521	11,548,374	23,246,895
2022-2026	14,802,186	8,444,709	23,246,895
2027-2031	18,734,765	4,512,130	23,246,895
2032-2033	8,833,590	465,170	9,298,760
	<u>\$ 63,305,611</u>	<u>\$ 38,980,729</u>	<u>\$ 102,286,340</u>

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 \$380,000 and \$440,000 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010. The line of credit is in NVTC's name and they are obligated for any outstanding balance.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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 \$307,000 at June 30, 2011 and \$284,000 at June 30, 2010.

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2010, 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, 2011 and 2010 was as follows:

	2011	2010
Beginning balance, July 1	\$ 9,511,797	\$ 8,229,082
Contribution to reserves	4,525,000	5,005,000
Insurance premiums paid	(3,711,476)	(3,639,323)
Claims mitigation costs and losses incurred	(190,585)	(68,329)
Investment income	-	65,164
Actuarial and administrative charges	(81,768)	(79,797)
Ending balance, June 30	<u>\$ 10,052,968</u>	<u>\$ 9,511,797</u>

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.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 10. Contingencies and Contractual Commitments

At June 30, 2011, 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, 2011:

Stations and parking lots	\$	3,473,961
Rolling Stock		8,953,685
Maintenance and layover yards		1,915,297
Track and signal improvements		668,212
Other administrative		562,031
Total	\$	15,573,186

VRE has received proceeds from several federal (with PRTC as grantee) and state grant programs. In the event of an audit of these grants, certain costs may be questioned as not being appropriate expenses under the grant agreements. Such findings may result in the refund of grant monies to the grantor agencies. Based on VRE's policies and past experience, management believes that no refunds would be due in the case of an audit and, accordingly, no provision has been made in the accompanying financial statements for the refund of grant monies. The federal grant agreements control the use and disposal of property acquired with federal grant funds. If property is removed from service prior to the end of its useful life, the grant recipient may be required to return to the grantor agency the federal assistance expended on that property. In addition, permission of the grantor agency is required if property is disposed of prior to the end of its useful life or at any time for an amount in excess of \$5,000. At the end of fiscal year 2011, VRE was holding the proceeds of the sale of older equipment in the amount of \$450,250 in a restricted account, to be used for the purchase of replacement rolling stock. Included in other receivables is \$150,000 due to VRE from the sale of rolling stock. Once collected, the proceeds will be used for the purchase of replacement rolling stock.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 11. Pending GASB Statements

At June 30, 2011, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by VRE. The statements which might impact VRE are as follows:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Statement No. 62 will be effective for periods beginning after December 15, 2011.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. Statement No. 63 will be effective for periods beginning after December 15, 2011.

Note 12. Subsequent Events

VRE entered into contracts at various times from May 2011 through September 2011 to purchase fuel at set prices for delivery in July 2011 through June 2012. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 798,000 gallons of fuel at a cost of approximately \$2.5 million.

Required Supplementary Information

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF FUNDING PROGRESS

Virginia Retirement System

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

Valuation as of June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Assets as % of AAL	Annual Covered Payroll	UAAL as a % of Covered Payroll
2010	\$ 7,503,689	\$ 8,539,776	\$ 1,036,087	87.87%	\$ 5,733,383	18.07%
2009	6,809,891	6,996,387	186,496	97.33%	5,743,627	3.25%
2008	5,875,612	6,065,059	189,447	96.88%	5,369,542	3.53%

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Statistical Section



STATISTICAL SECTION

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

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Financial Trends These schedules contain trend information to help the reader understand how VRE's financial performance has changed over time.	42 - 44
Other Statistical Information This schedule and service area map provides other information useful to certain readers of VRE's financial statements.	45 - 46
Demographic and Economic Information These schedules offer demographic and economic indicators to assist the reader understand the environment within which VRE's financial activities take place.	47 - 49

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF CHANGE IN NET ASSETS

Last Ten Fiscal Years

(Unaudited)

	June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Operating Revenues:										
Passenger revenue	\$ 32,368,123	\$ 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	200,069	247,375	124,926	133,242	206,558	442,517	121,373	188,256	292,086	206,796
Total operating revenues	32,568,192	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	12,806,509	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 - with PRTC as grantee	16,457,284	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	16,070,307	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	7,506,606	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 - with PRTC as grantee	40,136,130	15,437,312	14,648,460	18,259,459	10,363,653	12,245,939	9,824,036	6,689,765	8,597,822	11,080,201
Federal grants - NVTC and other	3,308,513	402,355	53,738	939,088	399,283	550,890	-	-	-	-
Pass-through to Fairfax County	406,331	680,631	(4,456,818)	925,338	-	-	-	-	-	-
In-kind and other local contributions	-	-	1,903,284	-	-	-	266,148	3,143,319	457,149	699,375
Interest income:										
Operating funds	14,675	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	384	586	36,232	535,093	41,038	840,383	49,860	-	-	-
Insurance proceeds	-	-	-	262,676	-	-	-	-	-	-
Total nonoperating revenues	96,406,739	71,605,975	68,326,404	73,378,727	55,253,086	47,233,023	36,912,678	34,985,777	34,387,893	37,375,567
Total revenues	128,974,931	101,873,080	94,361,124	95,200,061	75,145,205	67,128,976	56,486,213	52,103,662	49,728,241	50,335,577
Operating Expenses:										
Contract operations and maintenance	21,405,930	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	12,949,155	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	11,756,531	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	4,049,906	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	1,502,434	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	5,964,956	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	12,218,203	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	69,847,115	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 (Revenues) Expenses:										
Interest and amortization	5,566,829	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	271,606	393,419	(4,218,641)	3,176,932	291,306	1,366,531	3,640,928	-	-	-
Total nonoperating expenses, net	5,838,435	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	75,685,550	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	\$ 53,289,381	\$ 31,864,809	\$ 31,327,777	\$ 28,794,253	\$ 14,985,874	\$ 9,934,229	\$ 927,640	\$ 3,745,899	\$ 5,410,493	\$ 7,154,057

Source: VRE's Audited Financial Statements.

VIRGINIA RAILWAY EXPRESS

**SCHEDULE OF OUTSTANDING DEBT
Last Ten Fiscal Years
(Unaudited)**

	June 30,									
	2011	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	24,295,000	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	19,786,652	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	380,000	440,000	500,000	560,000	605,000	660,000	720,000	780,000	840,000	900,000
\$67,139,275 FRA Notes (#1-#15)	63,305,611	63,749,851	56,122,937	26,970,555	-	-	-	-	-	-
Outstanding as of June 30	\$ 107,767,263	\$ 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 as of June 30	\$ 107,767,263	\$ 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	1,986,630	1,952,149	1,929,724	1,912,009	1,887,518	1,858,580	1,830,595	1,797,039
Debt per Capita	N/A	N/A	\$ 56.76	\$ 53.44	\$ 43.73	\$ 47.47	\$ 51.40	\$ 41.49	\$ 45.06	\$ 51.12
Outstanding Debt as a Percentage of Personal Income:										
Outstanding as of June 30	\$ 107,767,263	\$ 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 Personal Income	N/A	N/A	127,270,690,000	122,047,443,000	116,526,831,000	110,472,002,000	104,379,105,000	96,986,464,000	90,536,955,000	86,708,640,000
Total Outstanding Debt as a Percentage of Personal Income	N/A	N/A	0.09%	0.09%	0.07%	0.08%	0.09%	0.08%	0.09%	0.11%

Source: VRE's Audited Financial Statements.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF JURISDICTIONAL CONTRIBUTIONS

Last Ten Fiscal Years

(Unaudited)

	June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Fairfax County	\$ 4,906,693	\$ 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	405,980	508,503	482,764	330,713	111,115	73,827	57,544	68,276	79,191	109,519
City of Manassas	871,611	883,443	938,897	655,077	428,436	276,306	270,924	270,494	286,196	329,215
City of Manassas Park	544,763	537,496	567,082	359,574	183,686	179,422	149,758	129,178	127,728	135,725
Prince William County	6,384,660	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	2,634,002	2,971,727	2,974,507	2,429,735	917,147	699,424	609,222	726,297	554,900	613,575
City of Alexandria	130,974	124,737	118,797	113,140	107,752	102,621	97,734	93,080	88,648	84,427
Arlington County	191,624	182,499	173,809	165,532	157,649	150,142	142,992	136,183	129,687	123,512
Total contributions	\$ 16,070,307	\$ 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.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF MISCELLANEOUS STATISTICS

Last Ten Fiscal Years

(Unaudited)

	June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Rolling Stock (Owned or Leased)										
Locomotives	25	20	21	18	19	20	20	19	19	19
Railcars	101	95	91	89	90	90	90	90	86	86
Total rolling stock	126	115	112	107	109	110	110	109	105	105
Stations	18	18	18	18	18	18	18	18	18	18
Parking Spaces	8,644	8,508	8,504	7,227	7,284	7,273	7,273	7,009	6,354	-
Employees	37	37	37	37	36	36	34	32	28	28
Ridership and Fare Revenue Data:										
Total Ridership	4,517,366	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	18,377	16,673	15,754	14,662	13,982	14,667	15,238	14,720	13,291	11,467
Average Fare per Trip	\$ 7.17	\$ 7.44	\$ 6.66	\$ 5.98	\$ 5.70	\$ 5.40	\$ 5.17	\$ 4.76	\$ 4.64	\$ 4.54

(1) The methodology for calculating passenger trips was changed during fiscal year 2011 to more accurately reflect boardings and detrainings prior to the inner city stations. This increased total ridership and decreased average fare per trip.

Source: VRE staff



VIRGINIA RAILWAY EXPRESS

PRINCIPAL EMPLOYERS OF PARTICIPATING JURISDICTIONS

**Current Year and Nine Years Ago
(Unaudited)**

	2010			2001		
	Rank	Employees	Percentage of Total Jurisdictional Employment	Rank	Employees	Percentage of Total Jurisdictional Employment
Fairfax County Public Schools (1)	1	22,852	N/A	1	20,445	N/A
Federal Government (1)	2	17,370	N/A	2	11,993	N/A
Fairfax County Government (1)	3	11,184	N/A	3	10,383	N/A
Booz Allen Hamilton (1)	4	7,000-10,000	N/A	7	4,000-5,000	N/A
Inova Health System (1)	4	7,000-10,000	N/A	4	9,000-10,000	N/A
US Patent Trademark Office (2)	4	2,000-10,000	N/A			
US Department of Defense (2)	4	2,000-10,000	N/A	5	7,545	N/A
Science Applications International Corporation (1)	8	4,000-6,999	N/A	6	5,000-6,000	N/A
Federal Home Loan Mortgage (1)	8	4,000-6,999	N/A	9	3,000-4,000	N/A
Northrop Grumman (1)	8	4,000-6,999	N/A			
George Mason University (1)	8	4,000-6,999	N/A			
Lockheed Martin (1)	8	4,000-6,999	N/A			
American Management System (1)				7	4,000-5,000	N/A
Verizon (1)				9	3,000-4,000	N/A
Exxon Mobil Corporation (1)				9	3,000-4,000	N/A

Sources:

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

(1) Fairfax County fiscal year 2010 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 254

(2) City of Alexandria fiscal year 2010 Comprehensive Annual Financial Report, Statistical Section, Table XIX, page 135

VIRGINIA RAILWAY EXPRESS

DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS

Fiscal Years 2001 to 2011

(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)
2011 (all categories)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2010								
Population	N/A	379,166	35,648	12,042	125,892	23,193	150,006	212,200
Personal income (in thousands)	N/A	N/A	N/A	\$391,776	\$4,977,140	\$860,368	\$10,441,443	\$15,217,499
Per capita personal income	N/A	N/A	N/A	\$32,534	\$39,535	\$37,096	N/A	\$71,713
Unemployment rate	N/A	5.9%	7.4%	5.8%	5.7%	9.6%	4.8%	4.3%
2009								
Population	1,074,227	366,092	35,883	11,410	122,800	22,818	144,100	209,300
Personal income (in thousands)	\$77,325,008	\$18,937,687	N/A	\$382,695	\$4,759,728	\$846,457	\$10,178,071	\$14,841,044
Per capita personal income	\$71,982	\$43,877	N/A	\$33,540	\$38,760	\$37,096	N/A	\$70,908
Unemployment rate	5.2%	5.7%	6.4%	6.5%	5.4%	9.2%	2.8%	4.7%
2008								
Population	1,050,315	360,610	36,666	11,533	121,736	22,410	140,879	208,000
Personal income (in thousands)	\$74,385,409	\$17,566,024	N/A	\$394,715	\$4,625,968	\$831,321	\$10,204,006	\$14,040,000
Per capita personal income	\$70,822	\$42,620	N/A	\$34,225	\$38,000	\$37,096	\$72,220	\$67,500
Unemployment rate	3.4%	3.3%	4.8%	3.2%	3.4%	5.7%	2.9%	2.6%
2007								
Population	1,041,507	352,828	38,066	11,527	120,723	21,273	139,000	204,800
Personal income (in thousands)	\$70,500,650	\$16,932,501	\$904,067	\$390,604	\$4,497,555	\$789,143	\$9,507,531	\$13,004,800
Per capita personal income	\$67,691	\$41,607	\$23,750	\$33,886	\$37,255	\$35,733	\$70,632	\$63,500
Unemployment rate	2.2%	2.5%	2.7%	2.4%	2.6%	4.1%	2.2%	2.3%
2006								
Population	1,037,311	345,852	38,066	11,652	120,170	20,732	138,000	200,226
Personal income (in thousands)	\$67,111,947	\$16,056,949	\$922,642	\$380,385	\$4,291,511	\$740,817	\$8,835,057	\$12,132,694
Per capita personal income	\$64,698	\$40,158	\$24,238	\$32,645	\$35,712	\$34,013	\$65,141	\$60,595
Unemployment rate	2.2%	2.6%	2.9%	2.3%	2.4%	4.0%	2.6%	2.3%
2005								
Population	1,033,646	333,786	37,000	11,369	117,674	20,776	135,000	198,267
Personal income (in thousands)	\$63,917,568	\$14,986,283	\$909,336	\$361,406	\$4,021,156	\$706,654	\$7,776,966	\$11,699,736
Per capita personal income	\$61,837	\$38,053	\$24,577	\$31,789	\$34,172	\$31,862	\$61,147	\$59,010
Unemployment rate	2.5%	3.0%	2.8%	2.1%	2.7%	4.8%	3.1%	2.5%
2004								
Population	1,022,298	321,537	36,500	10,930	114,513	20,063	134,000	198,739
Personal income (in thousands)	\$58,830,183	\$13,703,067	\$849,793	\$343,776	\$3,687,891	\$639,247	\$7,435,257	\$11,497,250
Per capita personal income	\$57,547	\$35,908	\$23,282	\$31,453	\$32,205	\$31,862	\$58,365	\$57,851
Unemployment rate	2.7%	3.1%	3.1%	2.0%	2.8%	5.1%	3.2%	2.6%
2003								
Population	1,012,090	310,048	36,300	10,881	109,341	20,010	135,000	196,925
Personal income (in thousands)	\$54,771,275	\$12,402,464	\$843,820	\$321,394	\$3,320,030	\$605,543	\$7,165,859	\$11,106,570
Per capita personal income	\$54,117	\$33,643	\$23,246	\$29,537	\$30,364	\$30,262	\$53,711	\$56,400
Unemployment rate	3.1%	3.9%	3.5%	1.8%	3.1%	5.4%	2.9%	2.3%

	Fairfax County (1)	Prince William County (2)	City of Manassas (3)	City of Manassas Park (4)	Stafford County (5)	City of Fredericksburg (6)	City of Alexandria (7)	Arlington County (8)
2002								
Population	1,004,435	297,738	35,900	10,662	104,232	19,737	129,938	193,754
Personal income (in thousands)	\$52,744,891	\$11,619,339	\$805,706	\$305,129	\$3,123,208	\$589,071	\$7,009,871	\$10,685,146
Per capita personal income	\$52,512	\$32,570	\$22,443	\$28,618	\$29,964	\$29,846	\$52,344	\$55,148
Unemployment rate	3.4%	3.6%	4.3%	2.7%	3.0%	5.9%	3.8%	2.7%
2001								
Population	984,366	284,301	35,500	10,290	98,376	19,279	130,403	189,983
Personal income (in thousands)	\$51,126,001	\$11,175,436	\$793,056	\$321,966	\$2,943,808	\$579,141	\$6,931,579	\$10,226,785
Per capita personal income	\$51,938	\$32,515	\$22,340	\$31,289	\$29,924	\$30,040	\$52,125	\$53,830
Unemployment rate	2.5%	2.5%	3.1%	1.0%	2.2%	3.6%	2.5%	2.1%

Sources:

- (1) Fairfax County fiscal year 2010 Comprehensive Annual Financial Report, Statistical Section, Table 4.0, page 253
- (2) Prince William County fiscal year 2010 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 163
- (3) City of Manassas fiscal year 2010 Comprehensive Annual Financial Report, Statistical Section, Table XIII, page 118
- (4) City of Manassas Park fiscal year 2010 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 131
- (5) Stafford County fiscal year 2010 Comprehensive Annual Financial Report, Statistical Section, Table S-14, page 109
- (6) City of Fredericksburg fiscal year 2010 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 130
- (7) City of Alexandria fiscal year 2010 Comprehensive Annual Financial Report, Statistical Section, Tables XI & XIV, pages 128 & 130
- (8) Arlington County fiscal year 2010 Comprehensive Annual Financial Report, Statistical Section, Table K

N/A = Not Available

Compliance Section





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

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

We have audited the financial statements of the Virginia Railway Express, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

Management of Virginia Railway Express is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Virginia Railway Express' 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 Virginia Railway Express' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Virginia Railway Express' 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Virginia Railway Express' 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 Virginia Railway Express' 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 and specifications 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, management, 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, 2011