Virginia Railway Express

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

Comprehensive Annual Financial Report

For the years ended June 30, 2012 and 2011

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, 2011

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

President

Executive Director

VIRGINIA RAILWAY EXPRESS

Comprehensive Annual Financial Report

YEARS ENDED JUNE 30, 2012 AND 2011

Prepared by:

Department of Finance

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Introductory Section

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October 30, 2012

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, 2012 for the Virginia Railway Express (VRE), a commuter rail service jointly owned and operated by the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC). NVTC and PRTC are political subdivisions of the Commonwealth of Virginia. VRE is not a legal entity and is considered a joint venture of the two Commissions for accounting purposes. As used in this report, VRE refers to those activities that are carried out jointly or individually by NVTC and PRTC to operate the commuter rail activities described below.

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

VRE's financial statements have been audited by 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 2012, VRE operated 32 trains and served an average daily ridership of 19,088, based on 250 days.

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. In addition, the Operations Board is required to have an annual audit performed of the financial activities related to the commuter rail service.

Economic Conditions

Major Initiatives

During fiscal year 2012, VRE focused on improving systems that would ensure the future health of the rail line and allow for expansion as opportunities and funding become available.

During fiscal years 2009 through 2011, VRE placed orders for the construction of 20 replacement locomotives. The first new locomotive was delivered to VRE in June 2010 and a total of 13 were received and in service by the end of fiscal year 2011. The remaining seven locomotives were delivered during fiscal year 2012. The new locomotives are more fuel efficient and less costly to maintain and have significantly improved service reliability. In addition, a central diagnostic system that monitors and transmits detailed information on the status of the locomotive electronic systems was completed and capitalized. VRE placed an order for the construction of eight Gallery railcars in fiscal year 2012 to replace existing equipment; delivery is expected in fiscal year 2014.

A platform extension at the Broad Run station and a "Kiss & Ride" facility at the Woodbridge station were completed during fiscal year 2012. In addition, the replacement of existing lighting with LED lighting was completed at several locations; this project will continue in fiscal year 2013. During the fiscal year, the construction of a spare parts warehouse at the Crossroads yard was substantially completed, and the construction of additional parking at the Brooke and Leeland stations was in process. The design of a third track near the planned Spotsylvania station began in fiscal year 2012; both the track and the station are scheduled for construction to begin during fiscal year 2013 with completion scheduled in the following year.

Work is currently underway on a Mobile Ticketing option which will enable passengers to purchase VRE fares via their cell phones. The mobile purchases will be able to be validated and presented to the conductors for visual inspection, just as in the current process, though other capabilities may be added as the system fully develops.

Long-Term Financial Planning

In order to help prioritize future needs and address potential future growth, 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. The cost and timing of the major capital projects included in the plan was updated in fiscal year 2012. Capital project costs and project timing are updated annually, as needed, and are 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.

A Transit Development Plan (TDP) was prepared in December 2011 and funded by the Virginia Department of Rail and Public Transportation (DRPT) to comply with DRPT requirements for recipients of state transit operating and capital assistance and to assist the agency in preparing inputs to the state Six-Year Improvement Program (SYIP) for transportation. The TDP identifies VRE's anticipated operating and capital needs over the six-year period from fiscal year 2013 to fiscal year 2018 and is consistent with the VRE capital improvement program and six-year forecasts developed through the annual budget process. The plan must be updated annually to reflect current agency operating and capital priorities and costs and to extend the TDP financial plan an additional year to maintain a six-year planning horizon.

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 excellent on-time performance. As a result, VRE experienced its highest cumulative average daily ridership to date during fiscal year 2012. At the same time, the availability of needed subsidy funds from local, state and federal governments is constrained. 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 continues to play a vital role in addressing the area's need to improve air quality and reduce congestion. It is estimated that VRE takes the equivalent of over 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, 2011. 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,

Doug Allen
Chief Executive Officer

Donna Boxer, CPA
Chief Financial Officer

DIRECTORY OF PRINCIPAL OFFICIALS AND KEY PERSONNEL

Operations Board

Officers

Chairman	Hon. Wally Covington, Prince William County
Vice-Chairman	Hon. Paul Smedberg, City of Alexandria
Treasurer	Hon. John Cook, Fairfax County
Secretary	Hon. Susan Stimpson, Stafford County

Members

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Hon. Maureen Caddigan, Prince William County
Hon. Frederic Howe, City of Fredericksburg
Hon. John Jenkins, Prince William County
Hon. Paul Milde, Stafford County
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Kevin Page, VDRPT
Hon. Gary Skinner, Spotsylvania County
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Hon. Bradford Ellis, City of Fredericksburg
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Hon. Frank Jones, City of Manassas Park
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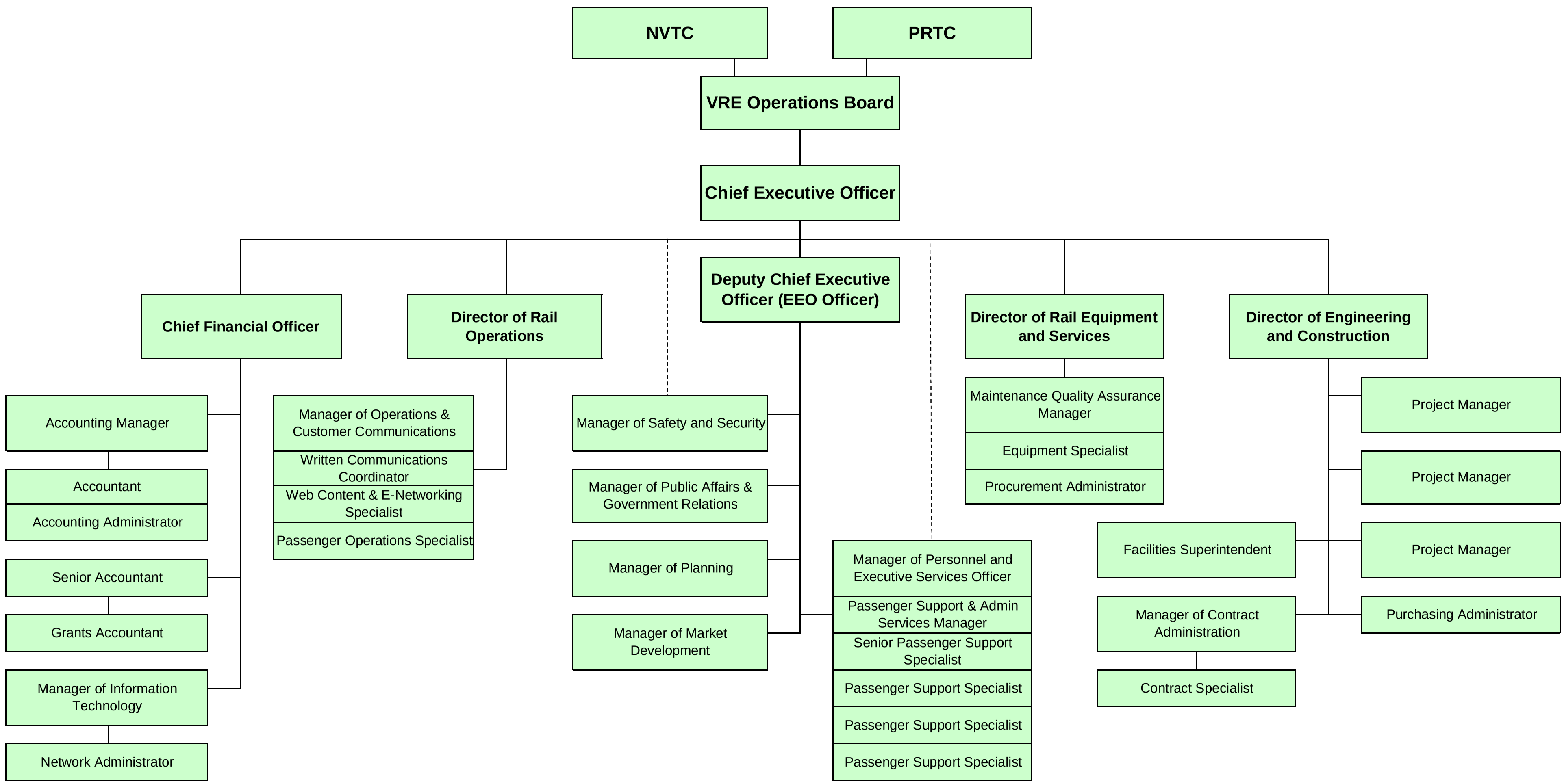
Hon. Michael May, Prince William County
Hon. Jeff McKay, Fairfax County
Hon. Martin Nohe, Prince William County
Steve Pittard, VDRPT
Hon. Benjamin Pitts, Spotsylvania County
Hon. Bob Thomas, Stafford County

Management

Chief Executive Officer	Doug Allen
Deputy Chief Executive Officer	Jennifer Mouchantaf
Chief Financial Officer	Donna Boxer, CPA
Director, Rail Equipment and Services	Richard Dalton
Director, Rail Operations	Chris Henry
Director, Engineering and Construction	Sirel Mouchantaf, P.E.

Virginia Railway Express
Organizational Chart
June 2012



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

PBGH
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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 years ended June 30, 2012 and 2011, 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 financial position of the Virginia Railway Express as of June 30, 2012 and 2011, and the changes in financial position and cash flows, where applicable, thereof 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 October 30, 2012 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information on pages 8-16 and 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on VRE's 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 financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

PBGH, LLP

Harrisonburg, Virginia
October 30, 2012

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, 2012. 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 $32,568,192 to $35,025,775. Ridership increased by 5.6 percent from 4,517,366 annual trips to 4,771,987.
- Operating expenses increased by 6.9 percent from $57,628,912 to $61,626,644 as the result of increases to the costs for access fees, maintenance materials for the older rolling stock, ticket sales commissions, diesel fuel and utilities, and VRE's share of the cost of developing a Master Plan for Washington Union Terminal.
- Non-operating revenue and capital grants decreased by 40.1 percent from $96,135,133 to $57,568,098. This decrease reflects the large federal and state grants drawn in fiscal year 2011 for the purchase of locomotives (with either PRTC or NVTC as grantee).
- The operating loss before depreciation was $26,600,869, an increase from the previous year of 6.1 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 $12,379,083 from $254,899,711 to $267,278,794 primarily as the result of grants and contributions for capital improvements. At the end of the fiscal year, unrestricted net assets were $29,366,104.
- During the fiscal year, capital assets, net of accumulated depreciation and amortization, decreased by 0.3 percent, as the combined result of expenditures on new projects, annual depreciation, and the sale of obsolete rolling stock.

Overview of the Basic Financial Statements

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

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

VRE's basic financial statements are the Statements of Net 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, 2012, 2011, and 2010 is shown below:

Condensed Statements of Net Assets

	2012	2011	2010
ASSETS:			
Current and other assets	$ 55,352,025	$ 55,530,425	$ 52,448,311
Capital assets, net	321,380,255	322,205,246	280,924,816
Total assets	376,732,280	377,735,671	333,373,127
LIABILITIES:			
Current portion of long-term debt	8,866,830	8,378,899	7,816,356
Other current liabilities	8,219,368	15,119,555	17,571,445
Non-current liabilities	92,367,288	99,337,506	106,374,996
Total liabilities	109,453,486	122,835,960	131,762,797
NET ASSETS:			
Invested in capital assets, net of related debt	220,396,390	213,710,235	165,407,433
Restricted	17,516,300	16,912,457	15,526,729
Unrestricted	29,366,104	24,277,019	20,676,168
Total net assets	$ 267,278,794	$ 254,899,711	$ 201,610,330

Current Year

Net assets increased by approximately $12.4 million, or 4.9 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, $220.4 million or 82.5 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. 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, $17.5 million or nearly 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, decreased approximately $.82 million or 0.3 percent as the result of a combination of lower expenditures on new projects, annual depreciation, and the sale of obsolete rolling stock.

Current liabilities decreased approximately $6.4 million or 27.3 percent as the result of a decrease to accrued expenses and contract retainage at year end, associated primarily with the completion of the locomotive replacement project.

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

Restricted net assets increased approximately $.6 million or 3.6 percent.

Prior 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, $213.7 million or 83.8 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.

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.

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.

	2012	2011	2010
Operating revenues:			
Passenger revenue	$ 34,721,591	$ 32,368,123	$ 30,019,730
Equipment rentals and other	304,184	200,069	247,375
Total operating revenues	35,025,775	32,568,192	30,267,105
Non-operating revenues and capital grants:			
Subsidies and grants:			
Commonwealth of Virginia	14,739,474	20,313,115	24,093,271
Federal – with PRTC as grantee	27,178,191	56,293,414	29,988,091
Federal – NVTC and other	-	3,308,513	377,371
Jurisdictional contributions	15,943,917	16,070,307	16,376,968
In-kind and local contributions	46,924	406,331	680,631
Interest income	17,974	15,059	89,643
Loss on disposal of assets	(358,382)	(271,606)	(393,419)
Total non-operating revenues and capital grants	57,568,098	96,135,133	71,212,556
Total revenues	92,593,873	128,703,325	101,479,661
Operating expenses:			
Contract operations and maintenance	21,093,606	21,405,930	20,291,361
Other operations and maintenance	14,594,826	12,949,155	12,055,009
Property leases and access fees	13,123,367	11,756,531	9,482,367
Insurance	3,491,620	4,049,906	3,864,366
Marketing and sales	2,211,354	1,502,434	1,259,048
General and administrative	7,111,871	5,964,956	5,642,360
Total operating expenses	61,626,644	57,628,912	52,594,511
Other expenses:			
Depreciation and amortization	13,373,129	12,218,203	11,337,406
Interest, financing costs and other	5,215,017	5,566,829	5,682,935
Total other expenses	18,588,146	17,785,032	17,020,341
Total expenses	80,214,790	75,413,944	69,614,852
Change in net assets	12,379,083	53,289,381	31,864,809
Net assets - beginning of year	254,899,711	201,610,330	169,745,521
Net assets - end of year	$ 267,278,794	$ 254,899,711	$ 201,610,330

Revenues

Current Year

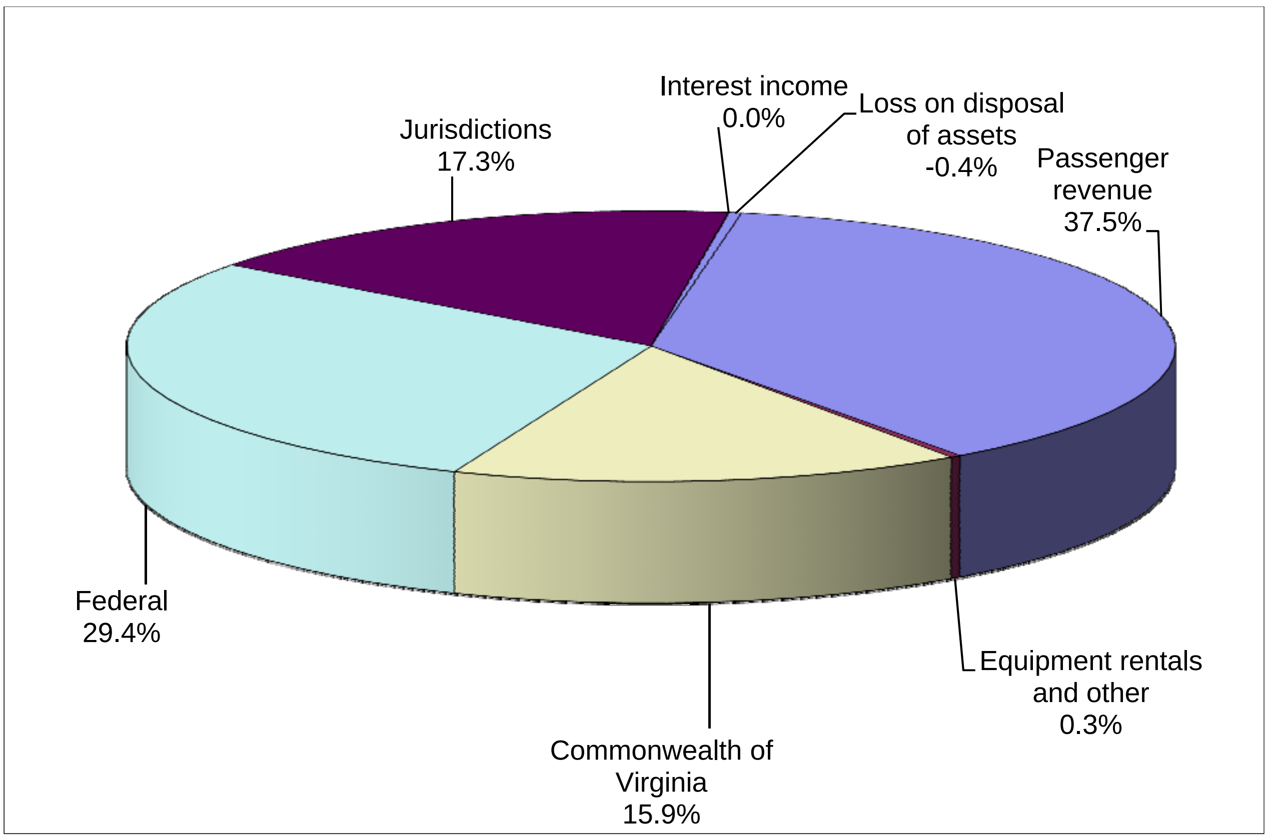
Total revenues for the current fiscal year decreased approximately $36.1 million or 28.1 percent. Operating revenues totaled $35.0 million, an increase of 7.6 percent from the prior year.

Passenger revenue increased approximately $2.4 million or 7.3 percent as the result of an increase in ridership.

	June 30,		
	2012	2011	2010
Ridership	4,771,987	4,517,366	4,033,230
% Increase	5.6%	12%	4.6%

Subsidies and capital grants decreased approximately $38.0 million or 47.6 percent; this decrease is attributed to large grants for the purchase of locomotives in the prior fiscal year. Jurisdictional subsidies decreased approximately $.1 million or 0.8 percent.

The following chart shows the major sources of revenues for the year ended June 30, 2012:



Prior 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.

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.

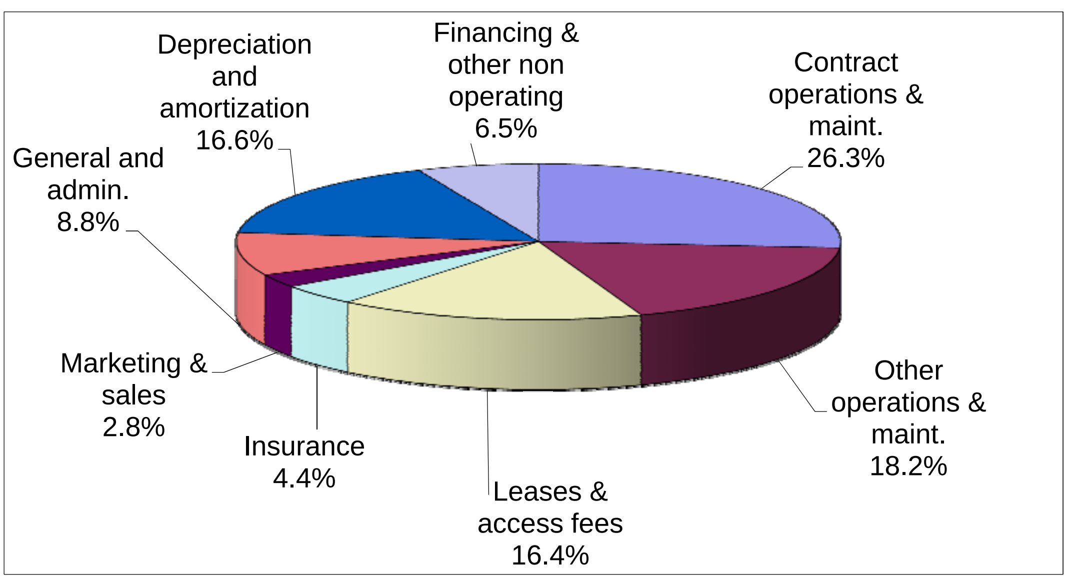
Expenses

Current Year

Total operating and other expenses, including depreciation and amortization, increased approximately $4.8 million or 6.4 percent. Operating expenses increased by $4 million or 6.9 percent. Total operating expenses were approximately $61.6 million compared to approximately $57.6 million for the prior fiscal year.

Property lease and access fee costs increased by approximately $1.4 million or 11.6 percent as the result of regular contractual increases, a revised contract with CSX and additional service added at the end of fiscal year 2011. Other operations and maintenance costs increased by $1.6 million or 12.7 percent because of an increase to fuel and utilities costs of $.68 million and an increase to rolling stock repair and maintenance costs of approximately $1 million for materials and specialized repairs related to the older rolling stock and newer equipment no longer covered under warranty. Marketing and sales costs increased by $.71 million or 47.2 percent as the result of higher ticket sales commission costs and additional targeted media advertising. General and administrative costs increased by $1.1 million or 19.2 percent, reflecting VRE's share of the cost of a Master Plan for Washington Union Terminal of $.86 million and higher salary and benefit costs of $.2 million. Insurance costs decreased by $.56 million or 13.8 percent as the result of a premium credit from prior years. Depreciation and amortization increased by approximately $1.2 million or 9.5 percent and net interest and financing costs decreased by $.35 million or 6.3 percent.

The following chart shows the major expense categories for the year ended June 30, 2012:



Prior 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.

Capital Assets and Debt Administration

Capital Assets

VRE's investment in capital assets as of June 30, 2012 amounts to $321 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 various government agencies and other local sources.

	2012	2011	2010
Rolling stock	$ 232,917,506	$ 218,390,607	$ 175,852,176
Vehicles	99,832	99,832	74,162
Facilities	94,688,877	92,335,553	78,099,155
Track and signal improvements	52,684,367	52,684,367	52,151,000
Equipment and software	8,739,939	8,393,438	8,776,321
Construction in progress	12,849,876	31,683,346	42,817,578
Equity in local properties	5,244,798	5,244,798	5,244,798
Furniture, equipment and software	5,409,010	3,760,116	3,724,664
	412,634,205	412,592,057	366,739,854
Less accumulated depreciation and amortization	(91,253,950)	(90,386,811)	(85,815,038)
Total capital assets, net	$ 321,380,255	$ 322,205,246	$ 280,924,816

Current Year

During fiscal year 2012, net investment in capital assets decreased approximately $.82 million or 0.3 percent, as the result of the sale of older rolling stock combined with lower amounts of new project construction. Completed projects totaling approximately $31.7 million were closed from construction in progress to their respective capital accounts and an additional $.33 million was charged directly to the capital accounts. Seven older locomotives and ten older railcars were sold during the year for a combined net loss on sale in the amount of approximately $255,000.

The major completed projects were: the manufacture of seven new locomotives ($27.6 million); completion of the CDS computer system for communication with the new locomotives ($1.6 million); construction of an extension to the platform at the Broad Run station ($.89 million); construction of a "Kiss & Ride" facility at the Woodbridge station ($.6 million); and a number of station, parking and yard lighting projects at various stations ($.79 million). The major additions to construction in progress during the fiscal year were for the construction of the Crossroads warehouse, the construction of additional parking at the Brooke and Leeland stations, and lighting improvement projects at various stations.

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

Prior Year

During fiscal year 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.

Debt Administration

At June 30, 2012, VRE had total debt outstanding of $101,166,421. 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 and a debt service insurance policy guarantees payment of each bond series.

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

	2012	2011	2010
Revenue bonds	$ 18,685,000	$ 24,295,000	$ 29,490,000
Capital leases	18,751,762	19,786,652	20,775,627
Notes payable (includes RRIF)	63,729,659	63,685,611	64,189,851
Total	$ 101,166,421	$ 107,767,263	$ 114,455,478

VRE has access to a line of credit of up to $1 million with SunTrust Bank; the line was not utilized during 2012. For further information, please refer to Notes 7 and 8 of the financial statements.

Economic Factors and Next Year's Budget

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

A fare increase of 3% was implemented at the beginning of fiscal year 2013. The local subsidy for fiscal year 2013 was increased by $484,882 to a total of $16,428,799, with full financial participation by Spotsylvania County. The level of state funding for transportation continues to be volatile and the level of federal formula funding may be 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, 2012 and 2011

ASSETS	2012	2011
Current Assets:		
Cash and cash equivalents	**$ 6,149,443**	$ 9,921,706
Accounts receivable:		
Due from PRTC - funded by FTA	**20,453,692**	14,533,706
Federal grants - other	**-**	121,412
Commonwealth of Virginia grants	**3,631,920**	3,640,249
Trade receivables, net of allowance for doubtful accounts	**1,374,764**	3,689,528
Other receivables	**98,728**	237,667
Inventory	**4,272,638**	4,715,458
Prepaid expenses and other	**484,544**	465,647
Restricted cash, cash equivalents and investments	**17,555,259**	16,808,248
Total current assets	**54,020,988**	54,133,621
Noncurrent Assets:		
Deferred bond and lease costs, net	**1,331,037**	1,396,804
Capital assets:		
Rolling stock	**232,917,506**	218,390,607
Vehicles	**99,832**	99,832
Facilities	**94,688,877**	92,335,553
Track and signal improvements	**52,684,367**	52,684,367
Equipment and software	**8,739,939**	8,393,438
Construction in progress	**12,849,876**	31,683,346
Equity in local properties	**5,244,798**	5,244,798
Furniture, equipment and software	**5,409,010**	3,760,116
	412,634,205	412,592,057
Less accumulated depreciation and amortization	**(91,253,950)**	(90,386,811)
Total capital assets, net	**321,380,255**	322,205,246
Total noncurrent assets	**322,711,292**	323,602,050
Total assets	**$ 376,732,280**	$ 377,735,671

LIABILITIES AND NET ASSETS	**2012**	2011
Current Liabilities:		
Accounts payable	**$ 2,714,790**	$ 2,675,346
Accounts payable – rolling stock	**-**	1,092,856
Payable to Commissions	**589,210**	847,743
Compensated absences	**29,909**	2,757
Accrued expenses	**2,563,735**	4,610,277
Accrued interest	**767,834**	926,658
Unearned revenue	**1,389,077**	1,293,177
Contract retainage	**164,813**	3,670,741
Current portion of bonds payable	**5,910,000**	5,610,000
Current portion of capital lease obligations	**1,082,937**	1,034,890
Current portion of notes payable	**1,873,893**	1,734,009
Total current liabilities	**17,086,198**	23,498,454
Noncurrent Liabilities:		
Bonds payable, net	**12,592,444**	18,319,892
Capital lease obligations	**17,668,825**	18,751,762
Notes payable	**61,855,766**	61,951,602
Compensated absences	**250,253**	314,250
Total noncurrent liabilities	**92,367,288**	99,337,506
Total liabilities	**109,453,486**	122,835,960
Net Assets:		
Invested in capital assets, net of related debt	**220,396,390**	213,710,235
Restricted for liability insurance plan	**10,156,492**	10,052,968
Restricted for debt service and capital lease	**6,408,466**	6,259,239
Restricted grants or contributions	**951,342**	600,250
Unrestricted assets	**29,366,104**	24,277,019
Total net assets	**267,278,794**	254,899,711
Total liabilities and net assets	**$ 376,732,280**	$ 377,735,671

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues:		
Passenger revenue	**$ 34,721,591**	$ 32,368,123
Equipment rentals and other	**304,184**	200,069
Total operating revenues	**35,025,775**	32,568,192
Operating Expenses:		
Contract operations and maintenance	**21,093,606**	21,405,930
Other operations and maintenance	**14,594,826**	12,949,155
Property leases and access fees	**13,123,367**	11,756,531
Insurance	**3,491,620**	4,049,906
Marketing and sales	**2,211,354**	1,502,434
General and administrative	**7,111,871**	5,964,956
Total operating expenses	**61,626,644**	57,628,912
Operating loss before depreciation and amortization	**(26,600,869)**	(25,060,720)
Depreciation and amortization	**(13,373,129)**	(12,218,203)
Operating loss	**(39,973,998)**	(37,278,923)
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	**12,711,602**	12,806,509
Federal grants – with PRTC as grantee	**17,181,121**	16,157,284
Jurisdictional contributions	**15,943,917**	16,070,307
Interest income:		
Operating funds	**16,813**	14,675
Other restricted funds	**1,161**	384
Loss on disposal of assets	**(358,382)**	(271,606)
Interest, amortization and other nonoperating expenses, net	**(5,215,017)**	(5,566,829)
Total nonoperating revenues, net	**40,281,215**	39,210,724
Capital grants and assistance:		
Commonwealth of Virginia grants	**2,027,872**	7,506,606
Federal grants – with PRTC as grantee	**9,997,070**	40,136,130
Federal grants – NVTC and other	**-**	3,308,513
Other local contributions	**46,924**	406,331
Total capital grants and assistance	**12,071,866**	51,357,580
Change in net assets	**12,379,083**	53,289,381
Net Assets, beginning	**254,899,711**	201,610,330
Net Assets, ending	**$ 267,278,794**	$ 254,899,711

See Notes to Financial Statements.

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities:		
Receipts from customers	$ 37,418,130	$ 33,206,301
Payments to suppliers	(57,114,663)	(58,124,897)
Payments to employees	(4,646,027)	(3,759,123)
Net cash used in operating activities	(24,342,560)	(28,677,719)
Cash Flows From Noncapital Financing Activities:		
Governmental subsidies	37,855,195	46,219,491
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(17,757,841)	(51,928,553)
Capital grants and assistance	14,257,114	48,635,100
Proceeds from sale of capital assets	507,555	150,000
Principal paid on capital lease obligations	(1,034,890)	(988,975)
Principal paid on notes	(1,770,591)	(1,654,016)
Principal paid on bonds	(5,610,000)	(5,195,000)
Interest paid on capital lease obligation	(896,467)	(942,382)
Interest paid on bonds and notes	(4,250,764)	(4,525,203)
Net cash used in capital and related financing activities	(16,555,884)	(16,449,029)
Cash Flows From Investing Activities:		
Interest received on investments	17,997	15,054
Increase (decrease) in cash and cash equivalents	(3,025,252)	1,107,797
Cash and Cash Equivalents, beginning	26,729,954	25,622,157
Cash and Cash Equivalents, ending	$ 23,704,702	$ 26,729,954
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:		
Operating loss	$ (39,973,998)	$ (37,278,923)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	13,373,129	12,218,203
Loss on disposal of assets	166,624	34,505
(Increase) decrease in:		
Accounts receivable	2,314,764	346,492
Other receivables	(3,064)	55,297
Inventory	332,350	(1,269,878)
Prepaid expenses and other	(18,897)	306,675
Increase (decrease) in:		
Accounts payable and accrued expenses	(614,123)	(3,326,410)
Unearned revenue	80,655	236,320
Net cash used in operating activities	$ (24,342,560)	$ (28,677,719)
Schedule of Noncash Capital Activities:		
Capital assets acquired through accounts payable	$ 1,174,609	$ 1,609,739
Capital assets acquired through notes payable	1,814,639	1,149,776
Capital assets acquired through accrued liabilities	551,460	2,875,831
Capital assets acquired through in-kind contributions	13,177	197,367
	$ 3,553,885	$ 5,832,713

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The system is not currently configured for fare revenues alone to produce positive operating income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds, a federal loan, a lease financing, Federal (with PRTC as grantee) and Commonwealth of Virginia grants, and jurisdictional contributions apportioned through a formula based on ridership, supplemented by voluntary donations from contributing jurisdictions. Grants and contributions fund both operations and capital projects. Participating jurisdictions include the counties of Fairfax, Prince William, Spotsylvania and Stafford; and the cities of Manassas, Manassas Park and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia. In February 2010 the VRE Master Agreement was amended to include Spotsylvania County as a participating jurisdiction. Spotsylvania County's share of the VRE annual subsidy from February 2010 through the middle of fiscal year 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 was phased in over four years, beginning in fiscal year 2008. The amendments also allowed for greater autonomy for the Operations Board, with progressively more decisions made by the Board without referral to PRTC and NVTC.

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting

VRE prepares its financial statements using the accrual basis of accounting. The activities of VRE are similar to those of proprietary funds of local jurisdictions. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 $17,555,259 and $16,808,248 at June 30, 2012 and 2011, 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 $174,000 at June 30, 2012 and $324,000 at June 30, 2011.

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. VRE has constructed a warehouse at the Crossroads yard and the spare parts inventory will be moved to that location at the beginning of fiscal year 2013. Inventory is stated at cost, which approximates market, and is valued using the first-in-first-out method.

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

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.

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	8-30 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, 2012.

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.

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, 2012, the book balance of VRE's deposits with banks was $609,512.

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

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

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

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

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

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

At June 30, 2012, VRE had investments of $6,529,932 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, 2012, VRE had $10,156,492 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 $6,408,466 at June 30, 2012 were held by the bond trustee, U.S. Bank, in U.S. Treasury money market accounts. Investments in U. S. Treasury money market accounts at U.S. Bank have been assigned a "AAAm" rating by Standard & Poor's.

As of June 30, 2012, the carrying values and maturity of VRE's investments were as follows:

Investment Type	Fair Value	Maturities Less than 1 Year
LGIP	$ 6,529,932	$ 6,529,932
Insurance trust fund – pooled funds	10,156,492	10,156,492
Money market funds – U. S. Treasuries	6,408,466	6,408,466
Total investments	$ 23,094,890	$ 23,094,890

During fiscal year 2012 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 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 with a Negative outlook.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	(Deletions) Reclassifications	Ending Balance
Capital assets not being depreciated or amortized:				
Construction in progress	$ 31,683,346	$ 12,989,614	$ (31,823,084)	$ 12,849,876
Capital assets being depreciated or amortized:				
Rolling stock	218,390,607	-	14,526,899	232,917,506
Vehicles	99,832	-	-	99,832
Facilities	92,335,553	-	2,353,324	94,688,877
Track and signal improvements	52,684,367	-	-	52,684,367
Equipment and software	8,393,438	291,613	54,888	8,739,939
Equity in local properties	5,244,798	-	-	5,244,798
Furniture, equipment and software	3,760,116	39,001	1,609,893	5,409,010
Total capital assets being depreciated or amortized	380,908,711	330,614	18,545,004	399,784,329
Less accumulated depreciation or amortization for:				
Rolling stock	42,755,780	7,949,551	(12,505,990)	38,199,341
Vehicles	51,126	15,001	-	66,127
Facilities	20,878,476	2,661,309	-	23,539,785
Track and signal improvements	14,275,092	1,791,703	-	16,066,795
Equipment and software	7,309,949	471,131	-	7,781,080
Equity in local properties	2,647,350	149,852	-	2,797,202
Furniture, equipment and software	2,469,038	334,582	-	2,803,620
Total accumulated depreciation or amortization	90,386,811	13,373,129	(12,505,990)	91,253,950
Total capital assets being depreciated or amortized, net	290,521,900	(13,042,515)	31,050,994	308,530,379
Totals	$ 322,205,246	$ (52,901)	$ (772,090)	$ 321,380,255

Note 3. Capital Assets (Continued)

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

Note 4. Related Party Transactions

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2012 and 2011, these payments included $4,350,169 and $4,142,917 of salary-related costs and $5,457 and $4,925 of administrative costs, respectively, which are functionally classified with similar payments made directly to vendors and contractors. In addition, VRE pays the Commissions for direct labor and associated indirect costs incurred for services rendered under budgeted activities for VRE. These staff support payments totaled $70,000 and $70,018 to NVTC and $88,700 and $78,254 to PRTC during 2012 and 2011, 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 $8,684 and $9,577 in 2012 and 2011, respectively. Amounts payable to NVTC and PRTC were $12,794 and $576,416 at June 30, 2012 and $12,314 and $835,429, respectively, at June 30, 2011.

Note 5. Defined Benefit Pension Plan

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment through PRTC. Benefits vest after five years of service credit. Members earn one month 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 VRS service as credit to 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 non-hazardous duty 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 the report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2011-Annual-Report.pdf or by writing to the system's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 5. Defined Benefit Pension Plan (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00 percent of their compensation toward their retirement. All or part of the 5.00 percent member contribution may be assumed by the employer. 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, 2012 was 10.92 percent of annual covered payroll, inclusive of the 5.00 percent member contribution, and VRE also contributed 0.28 percent for group life insurance.

C. Annual Pension Cost

For fiscal year 2012, VRE's annual pension cost of $334,169 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, 2010	$ 365,253	100%	$ -
June 30, 2011	334,135	100%	-
June 30, 2012	334,169	100%	-

The fiscal year 2012 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.

Note 5. Defined Benefit Pension Plan (Continued)

D. Funded Status and Funding Process

As of June 30, 2011, the most recent actuarial valuation date, the plan was 84.66 percent funded. The actuarial accrued liability for benefits was $9,730,413 and the actuarial value of assets was $8,237,980, resulting in an unfunded actuarial accrued liability (UAAL) of $1,492,433. The covered payroll (annual payroll of active employees of the plan) was $5,751,116 and the ratio of the UAAL to the covered payroll was 25.95 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, 2012 and 2011, annual track usage fees totaled approximately $7,645,000 and $6,210,000, respectively, and facility and other identified costs totaled approximately $450,000 and $454,000, respectively. Fiscal year 2012 costs reflect an additional train on the Manassas line and the terms of a new contract with CSX that went into effect on July 1, 2011.

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. 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. For the years ended June 30, 2012 and 2011, costs for these services totaled approximately $9,185,000 and $8,759,000, respectively. Cost adjustments will be made in future years to reflect 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 cost of train operations and maintenance for the years ended June 30, 2012 and 2011 totaled approximately $17,474,000 and $18,151,000, respectively. Costs are based on an annual budget prepared in advance. Costs in future years will be adjusted for service additions or deletions and annual changes to the Consumer Price Index.

VRE entered into a series of operating leases with Titan Transit for locomotives. For the years ended June 30, 2012 and 2011, lease costs totaled approximately $74,000 and $202,600, respectively. Two of these leases terminated in the first quarter of fiscal year 2012 and the final lease terminated in the fourth quarter of the fiscal year.

Note 7. Long-Term Debt Obligations

The following is a summary of long-term liability activity for the year ended June 30, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue Bonds	$ 24,295,000	$ -	$ (5,610,000)	$ 18,685,000	$ 5,910,000
Capital Leases	19,786,652	-	(1,034,890)	18,751,762	1,082,937
Notes Payable	63,685,611	1,814,639	(1,770,591)	63,729,659	1,873,893
	107,767,263	1,814,639	(8,415,481)	101,166,421	8,866,830
Compensated Absences	317,007	231,601	(268,446)	280,162	29,909
	$ 108,084,270	$ 2,046,240	$ (8,683,927)	$ 101,446,583	$ 8,896,739

Revenue Bonds:

$31,700,000 Commuter Rail Revenue Refunding Bonds, series 1998; due in annual maturities of $5,910,000 to $6,555,000 through July 1, 2014, plus semi-annual interest at 5.25% to 5.375%.	$ 18,685,000
Plus (less) unamortized:	
Deferred loss	(235,664)
Premiums	53,108
Total bonded debt, net	$ 18,502,444

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

Years Ending June 30,	Principal	Interest	Total Required
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
	$ 18,685,000	$ 1,537,454	$ 20,222,454

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 $78,200 and $76,700, are included in interest expense in 2012 and 2011, 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, 2012 and 2011, VRE designated $36,464,980 and $37,325,284 respectively, of its cash, inventory and receivables as this operating reserve. The reserves represented 62.17 percent and 64.90 percent of budgeted operating expenses for June 30, 2012 and 2011, 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, 2012 and 2011, are as follows:

	2012	2011
Bond Interest Fund	$ 498,466	$ 649,234
Bond Principal Fund	5,910,000	5,610,005
Total held by Trustee	$ 6,408,466	$ 6,259,239

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 $21,932,339.	$ 18,751,762

Future minimum lease payments as of June 30, 2012 are as follows:

Years Ending June 30,	Amount
2013	$ 1,931,357
2014	1,931,357
2015	1,931,357
2016	1,931,357
2017	1,931,357
2018-2022	9,656,785
2023-2025	5,794,071
Total minimum lease payments	25,107,641
Lease amount representing interest	6,355,879
Present value of lease payments	$ 18,751,762

Note 7. Long-Term Debt Obligations (Continued)

Note Payable – Gallery IV (60 cars)

In fiscal year 2008, VRE entered into an agreement with the Federal Railroad Administration for a loan of up to $72.5 million to purchase 50 Gallery railcars; in fiscal year 2009 the terms were amended to include ten additional Gallery railcars. A series of sixteen promissory notes were originally authorized and during fiscal year 2012 the balance on the individual notes were combined into a consolidated note. The note is secured by the revenues of VRE and the railcars. The carrying value of the railcars was $97,776,432 at June 30, 2012.

$63,844,842 Promissory Note; due in quarterly maturities of $440,368 to $1,195,258 through March 2033, plus quarterly interest at 4.74%	$ 63,409,659

Mandatory debt service requirements are as follows:

Years Ending June 30,	Principal	Interest	Total Required
2013	$ 1,813,893	$ 2,969,620	$ 4,783,513
2014	1,897,186	2,886,327	4,783,513
2015	1,988,724	2,794,789	4,783,513
2016	2,080,914	2,702,599	4,783,513
2017	2,188,783	2,594,730	4,783,513
2018-2022	12,613,047	11,304,515	23,917,562
2023-2027	15,964,023	7,953,539	23,917,562
2028-2032	20,204,782	3,712,780	23,917,562
2033	4,658,307	125,207	4,783,514
	$ 63,409,659	$ 37,044,106	$ 100,453,765

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 $320,000 and $380,000 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011. The line of credit is in NVTC’s name and they are obligated for any outstanding balance.

Note 9. Liability Insurance Plan

VRE is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters. The Virginia Department of Treasury, Division of Risk Management has established the terms of VRE's Commuter Rail Operations Liability Plan (the Insurance Plan). The Insurance Plan consists of a combination of self-insurance reserves and purchased insurance in amounts actuarially determined to meet the indemnification requirements of the Operating Access Agreements and the Purchase of Services Agreement and for liability and property damage. The Commissions indemnify each of the railroads in an amount up to $250,000,000 for any claims against persons or property associated with commuter rail operations. Settled claims have not exceeded commercial coverage during any of the past three fiscal years. The liability for incurred but not reported claims was approximately $240,000 at June 30, 2012 and $307,000 at June 30, 2011.

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2011, 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, 2012 and 2011 was as follows:

	2012	2011
Beginning balance, July 1	$ 10,052,968	$ 9,511,797
Contribution to reserves	3,619,260	4,525,000
Insurance premiums paid	(3,459,693)	(3,711,476)
Claims mitigation costs and losses incurred	(3,558)	(190,585)
Actuarial and administrative charges	(52,485)	(81,768)
Ending balance, June 30	$ 10,156,492	$ 10,052,968

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

Note 10. Contingencies and Contractual Commitments

At June 30, 2012, 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, 2012:

Stations and parking lots	$	4,235,066
Rolling Stock		22,226,007
Maintenance and layover yards		653,327
Track and signal improvements		611,459
Other administrative		302,331
Total	$	28,028,190

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 2012, VRE was holding the proceeds of the sale of older equipment in the amount of $951,342 in a restricted account, to be used for the purchase of replacement rolling stock. Once collected, the proceeds will be used for the purchase of replacement rolling stock.

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

Note 11. Pending GASB Statements

At June 30, 2012, 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, 2012.

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, 2012.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Statement No. 65 will be effective for periods beginning after December 15, 2012.

GASB Statement No. 66, *Technical Corrections – 2012*, will improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Statement No. 66 will be effective for periods beginning after December 15, 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, will improve financial reporting by state and local government pension plans. Statement No. 67 will be effective for fiscal years beginning after June 15, 2013.

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

Note 12. Subsequent Events

VRE entered into contracts at various times from April 2012 through June 2012 to purchase fuel at set prices for delivery in July 2012 through June 2013. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 1,008,000 gallons of fuel at a cost of approximately $3.1 million.

On September 6, 2012 the Commissions authorized the sale of two GP-40 locomotives to Goodloe Leasing LLC for a total amount of $140,000 and the Purchase Agreement was signed the following day. In addition, locomotive spare parts for the GP-40 and other older locomotives were sold to Goodloe Leasing in July 2012 for $100,000.

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
2011	$ 8,237,980	$ 9,730,413	$ 1,492,433	84.66%	$ 5,751,116	25.95%
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%

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Statistical Section

STATISTICAL SECTION

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

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VIRGINIA RAILWAY EXPRESS

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

	June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Operating Revenues:										
Passenger revenue	**$ 34,721,591**	$ 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
Equipment rentals and other	**304,184**	200,069	247,375	124,926	133,242	206,558	442,517	121,373	188,256	292,086
Total operating revenues	**35,025,775**	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
Nonoperating Revenues:										
Commonwealth of Virginia grants	**12,711,602**	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
Federal grants - with PRTC as grantee	**17,181,121**	16,157,284	14,525,795	12,784,123	12,522,868	12,741,069	10,721,335	8,124,763	6,226,445	7,168,236
Jurisdictional contributions	**15,943,917**	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
Capital Grants and Assistance:										
Commonwealth of Virginia grants	**2,027,872**	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
Federal grants - with PRTC as grantee	**9,997,070**	40,136,130	15,437,312	14,648,460	18,259,459	399,283	550,890			
Federal grants - NVTC and other	-	3,308,513	402,355	53,738	939,088	10,363,653	12,245,939	9,824,036	6,689,765	8,597,822
Pass-through to Fairfax County	-	-	-	(4,456,818)	-	-	-	-	-	-
In-kind and other local contributions	**46,924**	406,331	680,631	1,903,284	925,338	-	-	266,148	3,143,319	457,149
Interest income:										
Operating funds	**16,813**	14,675	23,893	129,620	399,553	850,490	367,292	214,888	44,390	87,809
Insurance trust	-	-	65,164	241,003	400,204	329,252	721,919	688,816	837,583	1,171,667
Other restricted funds	**1,161**	384	586	36,232	535,093	41,038	840,383	49,860	-	-
Insurance proceeds	-	-	-	-	262,676	-	-	-	-	-
Loss on sale of assets	**(358,382)**	(271,606)	(393,419)	-	-	-	-	-	-	-
Total nonoperating revenues	**57,568,098**	96,135,133	71,212,556	68,326,404	73,378,727	55,253,086	47,233,023	36,912,678	34,985,777	34,387,893
Total revenues	**92,593,873**	128,703,325	101,479,661	94,361,124	95,200,061	75,145,205	67,128,976	56,486,213	52,103,662	49,728,241
Operating Expenses:										
Contract operations and maintenance	**21,093,606**	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
Other operations and maintenance	**14,594,826**	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
Property leases and access fees	**13,123,367**	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
Insurance	**3,491,620**	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
Marketing and sales	**2,211,354**	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
General and administrative	**7,111,871**	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
Depreciation and amortization	**13,373,129**	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
Total operating expenses	**74,999,773**	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
Nonoperating (Revenues) Expenses:										
Interest and amortization	**5,215,017**	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
(Gain) loss on sale of assets	-	-	-	(4,218,641)	3,176,932	291,306	1,366,531	3,640,928	-	-
Total nonoperating expenses, net	**5,215,017**	5,566,829	5,682,935	1,795,602	7,702,211	3,039,390	6,319,974	7,898,106	4,323,776	3,960,846
Total expenses	**80,214,790**	75,413,944	69,614,852	63,033,347	66,405,808	60,159,331	57,194,747	55,558,573	48,357,763	44,317,748
Change in net assets	**$ 12,379,083**	$ 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

Note: Years after fiscal year 2010 reflect change in classification of *Gain (loss) on sale of assets.*

Source: VRE's Audited Financial Statements.

VIRGINIA RAILWAY EXPRESS

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

	June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt	**$ 220,396,390**	$ 213,710,235	$ 165,407,433	$ 144,566,529	$ 114,677,949	$ 87,827,971	$ 68,818,859	$ 56,669,086	$ 60,040,916	$ 51,892,652
Restricted for liability insurance plan	**10,156,492**	10,052,968	9,511,797	8,229,082	7,470,123	6,524,971	10,204,517	12,439,017	15,290,158	17,648,836
Restricted for debt service and capital lease	**6,408,466**	6,259,239	5,980,313	5,850,112	7,287,789	7,213,804	7,008,351	6,873,135	6,856,446	6,749,784
Restricted grants or contributions	**951,342**	600,250	34,619	194,193	1,269,313	785,173	14,013	726,456	-	-
Unrestricted assets	**29,366,104**	24,277,019	20,676,168	10,905,605	7,712,570	7,251,572	8,571,877	7,975,694	1,568,228	3,718,577
Total Net Assets	**$ 267,278,794**	$ 254,899,711	$ 201,610,330	$ 169,745,521	$ 138,417,744	$ 109,603,491	$ 94,617,617	$ 84,683,388	$ 83,755,748	$ 80,009,849

Note: Method of reporting was revised for fiscsal year 2011.

Source: VRE's Audited Financial Statements.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF OUTSTANDING DEBT
Last Ten Fiscal Years
(Unaudited)

	June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
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
$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
$31,700,000 Commuter Rail Revenue Bond, Series 1998	**18,685,000**	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
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
$25,100,000 Capitalized Lease Obligation	**18,751,762**	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
$297,691 Capitalized Lease Obligation	-	-	-	-	-	-	-	-	-	55,882
$746,282 Capitalized Lease Obligation	-	-	-	-	-	-	-	-	-	94,961
Notes Payable:										
$900,000 SunTrust Bank	**320,000**	380,000	440,000	500,000	560,000	605,000	660,000	720,000	780,000	840,000
$68,953,914 FRA Notes (#1-#16)	**63,409,659**	63,305,611	63,749,851	56,122,937	26,970,555	-	-	-	-	-
Outstanding as of June 30	**$ 101,166,421**	$ 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
Debt per Capita:										
Outstanding as of June 30	**$ 101,166,421**	$ 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
Total Participating Jurisdictional Population	**N/A**	N/A	2,023,830	1,995,849	1,960,044	1,937,448	1,918,081	1,892,119	1,861,699	1,832,927
Debt per Capita	**N/A**	N/A	$ 56.55	$ 56.50	$ 53.23	$ 43.56	$ 47.32	$ 51.27	$ 41.42	$ 45.01
Outstanding Debt as a Percentage of Personal Income:										
Outstanding as of June 30	**$ 101,166,421**	$ 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
Total Personal Income	**N/A**	N/A	124,897,777,000	124,360,586,000	123,988,659,000	116,875,312,000	110,566,169,000	104,448,462,000	90,565,400,000	86,905,018,000
Total Outstanding Debt as a Percentage of Personal Income	**N/A**	N/A	0.09%	0.09%	0.08%	0.07%	0.08%	0.09%	0.09%	0.09%

Sources:

(1) Fairfax County fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table 4.0, page 257
(2) Prince William County fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 175
(3) City of Manassas fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table XIII, page 120
(4) City of Manassas Park fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 124
(5) Stafford County fiscsl year 2011 Comprehensive Annual Financial Report, Statistical Section, Table S-14; page 111
(6) City of Fredericksburg fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 132
(7) City of Alexandria fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Tables XI & XIV, pages 132 & 134
(8) Arlington County fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table K, page 183

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF JURISDICTIONAL CONTRIBUTIONS
Last Ten Fiscal Years
(Unaudited)

	June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Fairfax County	**$ 4,876,961**	$ 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
City of Fredericksburg	**420,566**	405,980	508,503	482,764	330,713	111,115	73,827	57,544	68,276	79,191
City of Manassas	**817,993**	871,611	883,443	938,897	655,077	428,436	276,306	270,924	270,494	286,196
City of Manassas Park	**566,504**	544,763	537,496	567,082	359,574	183,686	179,422	149,758	129,178	127,728
Prince William County	**5,859,007**	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
Stafford County	**2,505,805**	2,634,002	2,971,727	2,974,507	2,429,735	917,147	699,424	609,222	726,297	554,900
Spotsylvania County	**577,020**	-	-	-	-	-	-	-	-	-
City of Alexandria	**129,944**	130,974	124,737	118,797	113,140	107,752	102,621	97,734	93,080	88,648
Arlington County	**190,117**	191,624	182,499	173,809	165,532	157,649	150,142	142,992	136,183	129,687
Total contributions	**$ 15,943,917**	$ 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

Source: VRE's Department of Finance.

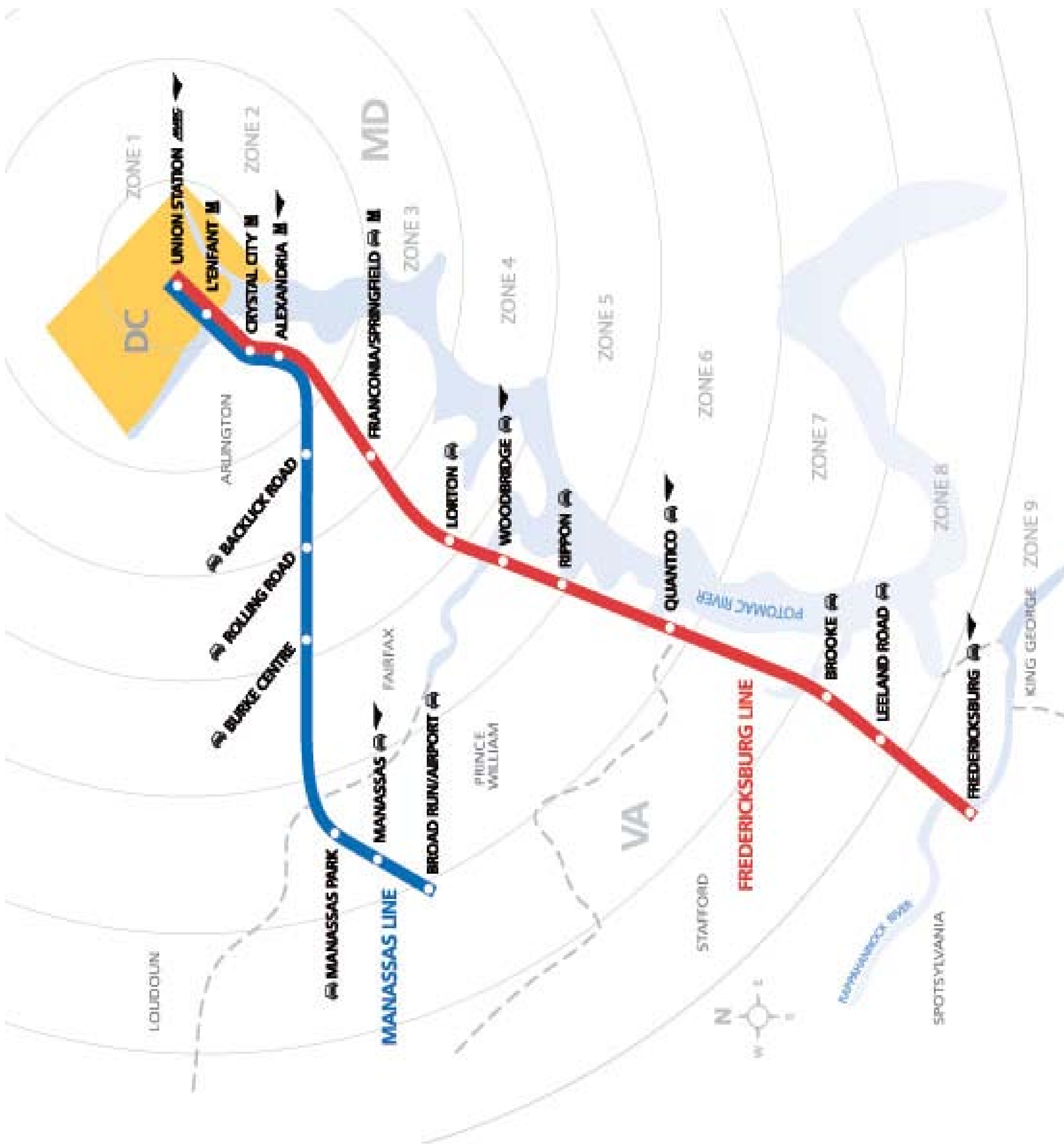
VIRGINIA RAILWAY EXPRESS

SCHEDULE OF MISCELLANEOUS STATISTICS
Last Ten Fiscal Years
(Unaudited)

	June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Rolling Stock (Owned or Leased)										
Locomotives	**22**	25	20	21	18	19	20	20	19	19
Railcars	**91**	101	95	91	89	90	90	90	90	86
Total rolling stock	**113**	126	115	112	107	109	110	110	109	105
Stations	**18**	18	18	18	18	18	18	18	18	18
Parking Spaces	**8,824**	8,824	8,691	8,505	7,227	7,284	7,273	7,273	7,009	6,354
Employees	**37**	37	37	37	37	36	36	34	32	28
Ridership and Fare Revenue Data (1):										
Total Ridership	**4,771,987**	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
Average Daily Ridership	**19,088**	18,377	16,673	15,754	14,662	13,982	14,667	15,238	14,720	13,291
Average Fare per Trip	**$ 7.28**	$ 7.17	$ 7.44	$ 6.66	$ 5.98	$ 5.70	$ 5.40	$ 5.17	$ 4.76	$ 4.64

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

Source: VRE staff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L'ENFANT
CRYSTAL CITY
ALEXANDRIA
FRANCONIA/SPRINGFIELD
LORTON
WOODBRIDGE
RIPPON
QUANTICO
BROOKE
LEELAND ROAD
FREDERICKSBURG
FREDERICKSBURG LINE
BACKLICK ROAD
ROLLING ROAD
BURKE CENTRE
MANASSAS PARK
MANASSAS
BROAD RUN/AIRPORT
MANASSAS LINE
ARLINGTON
FAIRFAX
PRINCE WILLIAM
LOUDOUN
STAFFORD
SPOTSYLVANIA
KING GEORGE
POTOMAC RIVER
N

VIRGINIA RAILWAY EXPRESS

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

	2011			2002		
Employers	Rank	Employees	Percentage of Total Jurisdictional Employment	Rank	Employees	Percentage of Total Jurisdictional Employment
Federal Government (1) (2)	1	56,712	N/A	1	43,345	N/A
Fairfax County Public Schools (1)	2	22,939	N/A	2	20,510	N/A
Fairfax County Government (1)	3	11,871	N/A	3	11,385	N/A
Arlington County Government (2)	4	10,504	N/A	4	9,203	N/A
Booz Allen Hamilton (1)	5	7,000-10,000	N/A	7	4,000-5,000	N/A
Inova Health System (1)	5	7,000-10,000	N/A	5	9,000-10,000	N/A
Science Applications International Corporation (1)	7	4,000-6,999	N/A	6	5,000-6,000	N/A
Federal Home Loan Mortgage (1)	7	4,000-6,999	N/A	-	-	-
Northrop Grumman (1)	7	4,000-6,999	N/A	8	3,000-4,000	N/A
George Mason University (1)	7	4,000-6,999	N/A	8	3,000-4,000	N/A
Lockheed Martin Corportion (1)	-	-	-	8	3,000-4,000	N/A
Raytheon Company (1)	-	-	-	8	3,000-4,000	N/A

Sources:

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

(1) Fairfax County fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 258
(2) Arlington County fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table L, page 184

DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS
Fiscal Years 2002 to 2012
(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)
2012 (all categories)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2011								
Population	N/A	406,110	37,821	14,387	128,961	24,286	141,287	210,280
Personal Income (in thousands)	N/A	N/A	N/A	$455,635	$5,370,464	$953,517	$10,627,334	$15,707,916
Per Capita Personal Income	N/A	N/A	N/A	$31,670	$41,644	$39,262	N/A	$74,700
Unemployment Rate	N/A	5.3%	6.9%	5.2%	5.2%	10.3%	4.8%	3.9%
2010								
Population	1,081,726	389,001	35,648	12,042	128,961	24,286	139,966	212,200
Personal Income (in thousands)	$72,577,324	$20,051,058	N/A	$391,776	$5,265,160	$953,517	$10,441,443	$15,217,499
Per Capita Personal Income	$67,094	$42,901	N/A	$32,534	$40,828	$39,262	N/A	$71,713
Unemployment Rate	4.9%	5.8%	7.4%	5.8%	5.7%	9.6%	4.8%	4.3%
2009								
Population	1,074,227	374,776	35,883	11,410	122,800	23,353	144,100	209,300
Personal Income (in thousands)	$74,380,758	$18,745,817	N/A	$382,695	$4,915,316	$916,885	$10,178,071	$14,841,044
Per Capita Personal Income	$69,241	$43,827	N/A	$33,540	$40,027	$39,262	$70,846	$70,908
Unemployment Rate	4.8%	5.9%	6.4%	6.5%	5.4%	9.2%	2.8%	4.7%
2008								
Population	1,050,315	368,016	36,666	11,533	121,736	22,899	140,879	208,000
Personal Income (in thousands)	$74,385,409	$18,244,144	$918,930	$394,715	$4,897,196	$904,259	$10,204,006	$14,040,000
Per Capita Personal Income	$70,822	$44,265	$25,054	$34,225	$40,228	$39,489	$72,220	$67,500
Unemployment Rate	3.4%	3.4%	4.8%	3.2%	3.4%	5.7%	2.9%	2.6%
2007								
Population	1,041,507	359,174	38,066	11,527	120,723	22,651	139,000	204,800
Personal income (in thousands)	$70,500,650	$17,200,916	$904,067	$390,604	$4,497,535	$869,209	$9,507,531	$13,004,800
Per capita personal income	$67,691	$42,267	$23,750	$33,886	$37,255	$38,374	$70,632	$63,500
Unemployment rate	2.2%	2.6%	2.7%	2.4%	2.6%	4.1%	2.2%	2.3%
2006								
Population	1,037,311	350,612	38,066	11,652	120,170	22,044	138,000	200,226
Personal income (in thousands)	$67,111,947	$16,088,936	$922,642	$380,385	$4,291,511	$802,997	$8,835,057	$12,132,694
Per capita personal income	$64,698	$40,238	$24,238	$32,645	$35,712	$36,427	$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	337,439	37,000	11,369	117,674	21,724	135,000	198,267
Personal income (in thousands)	$63,917,568	$15,012,664	$909,336	$361,406	$4,021,156	$749,630	$7,776,966	$11,699,736
Per capita personal income	$61,837	$38,120	$24,577	$31,789	$34,172	$34,507	$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	323,377	36,500	10,930	114,513	21,342	134,000	198,739
Personal income (in thousands)	$58,830,183	$13,723,915	$849,793	$343,776	$3,687,891	$690,264	$7,435,257	$11,497,250
Per capita personal income	$57,547	$35,963	$23,282	$31,453	$32,205	$32,343	$58,365	$57,851
Unemployment rate	2.7%	3.1%	3.1%	2.0%	2.8%	5.1%	3.2%	2.6%

	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)
2003								
Population	1,012,090	311,749	36,300	10,881	109,341	20,641	135,000	196,925
Personal income (in thousands)	$54,771,275	$12,399,884	$843,820	$321,394	$3,320,030	$636,568	$7,165,859	$11,106,570
Per capita personal income	$54,117	$33,636	$23,246	$29,537	$30,364	$30,840	$53,711	$56,400
Unemployment rate	3.1%	3.9%	3.5%	1.8%	3.1%	5.4%	2.9%	2.3%
2002								
Population	1,004,435	298,843	35,900	10,662	104,232	20,381	129,938	193,754
Personal income (in thousands)	$52,744,891	$11,616,846	$805,706	$305,128	$3,123,208	$614,222	$7,009,871	$10,685,146
Per capita personal income	$52,512	$32,563	$22,443	$28,618	$29,964	$30,137	$52,344	$55,148
Unemployment rate	3.4%	3.6%	4.3%	2.7%	3.0%	5.9%	3.8%	2.7%

Sources:

(1) Fairfax County fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table 4.0, page 257
(2) Prince William County fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 175
(3) City of Manassas fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table XIII, page 120
(4) City of Manassas Park fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 124
(5) Stafford County fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table S-14; page 111
(6) City of Fredericksburg fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 132
(7) City of Alexandria fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Tables XI & XIV, pages 132 & 134
(8) Arlington County fiscal year 2011 Comprehensive Annual Financial Report, Statistical Section, Table K, page 183

N/A = Not Available

Compliance Section

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**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, 2012, and have issued our report thereon dated October 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

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

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
October 30, 2012