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, 2013 and 2012

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Virginia Railway Express

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

VIRGINIA RAILWAY EXPRESS

Comprehensive Annual Financial Report

YEARS ENDED JUNE 30, 2013 AND 2012

Prepared by:

Department of Finance

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Introductory Section

VIRGINIA RAILWAY EXPRESS

November 4, 2013

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, 2013 for the Virginia Railway Express (VRE), a commuter rail service jointly owned and operated by the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC). NVTC and PRTC are political subdivisions of the Commonwealth of Virginia. VRE is not a legal entity and is considered a joint venture of the two Commissions for accounting purposes. As used in this report, VRE refers to those activities that are carried out jointly or individually by NVTC and PRTC to operate the commuter rail activities described below.

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

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

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

Profile of Virginia Railway Express

VRE provides commuter rail service on two railroad lines originating in Fredericksburg and Manassas, Virginia, and terminating at Union Station, Washington, DC. VRE began operations in 1992 with 16 trains and 1,800 average daily riders. During fiscal year 2013, VRE operated 32 trains and served an average daily ridership of 18,878, 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 2013, 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.

VRE placed an order for the construction of eight Gallery railcars in fiscal year 2012 to replace existing equipment. Construction of the railcars continued during fiscal year 2013 and delivery is expected in February 2014. During fiscal year 2013 VRE completed the first phase of a Long Range Life Cycle Maintenance Action Plan for the VRE rolling stock and maintenance facilities; specific actions and recommendations will be incorporated into the fiscal year 2015 budget and capital plan.

The construction of additional parking at the Brooke and Leeland Stations and the construction of a warehouse facility at the Crossroads yard were completed during fiscal year 2013. The design of a new station in Spotsylvania County was completed during fiscal year 2013 and substantial progress was made on the design of the third track near the station. Construction of both the track and the station is scheduled to begin in fiscal year 2014.

Work continued on the selection of a Mobile Ticketing system 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 that 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. The preparation of a VRE System Plan was initiated in April 2013. The System Plan will build upon the long-range vision outlined in the VRE Strategic Plan and provide a framework for system capital investments and actions VRE should pursue through 2040 to address projected system and regional travel needs. The System Plan will identify overall capital project costs and project timing over the life of the plan and form the basis for the ongoing 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 Plan is updated annually to reflect current agency priorities and costs and to extend the TDP financial plan an additional year to maintain a six-year planning horizon.

Financial Environment

As the price of fuel 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 average daily ridership to date during the last two fiscal years. Although subsidy funds continue to be constrained, new sources of regional, state and federal revenue will be available to the system beginning in fiscal year 2014. As a result, future VRE budgets will reflect a balance between meeting service needs, setting fares at a reasonable price, and incorporating the new funding sources into the strategic direction set by the Operations Board and the Commissions.

The focus of the VRE Operations Board and VRE management continues to be the provision of safe, reliable commuter rail service to the citizens of Northern Virginia. With the Washington, DC metropolitan area designated as an ozone non-attainment area, public transit continues to play a vital role in addressing the area's need to improve air quality and reduce congestion. It is estimated that VRE 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, 2012. 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. Paul Smedberg, City of Alexandria
Vice-Chairman	Hon. Paul Milde, Stafford County
Treasurer	Hon. Jonathan Way, City of Manassas
Secretary	Hon. John Cook, Fairfax County

Members

Hon. Sharon Bulova, Fairfax County
Hon. Maureen Caddigan, Prince William County
Hon. Wally Covington, Prince William County
Hon. John Jenkins, Prince William County
Hon. Matt Kelly, City of Fredericksburg
Hon. Suhas Naddoni, City of Manassas Park
Kevin Page, VDRPT
Hon. Gary Skinner, Spotsylvania County
Hon. Bob Thomas, Stafford County
Hon. Christopher Zimmerman, Arlington County

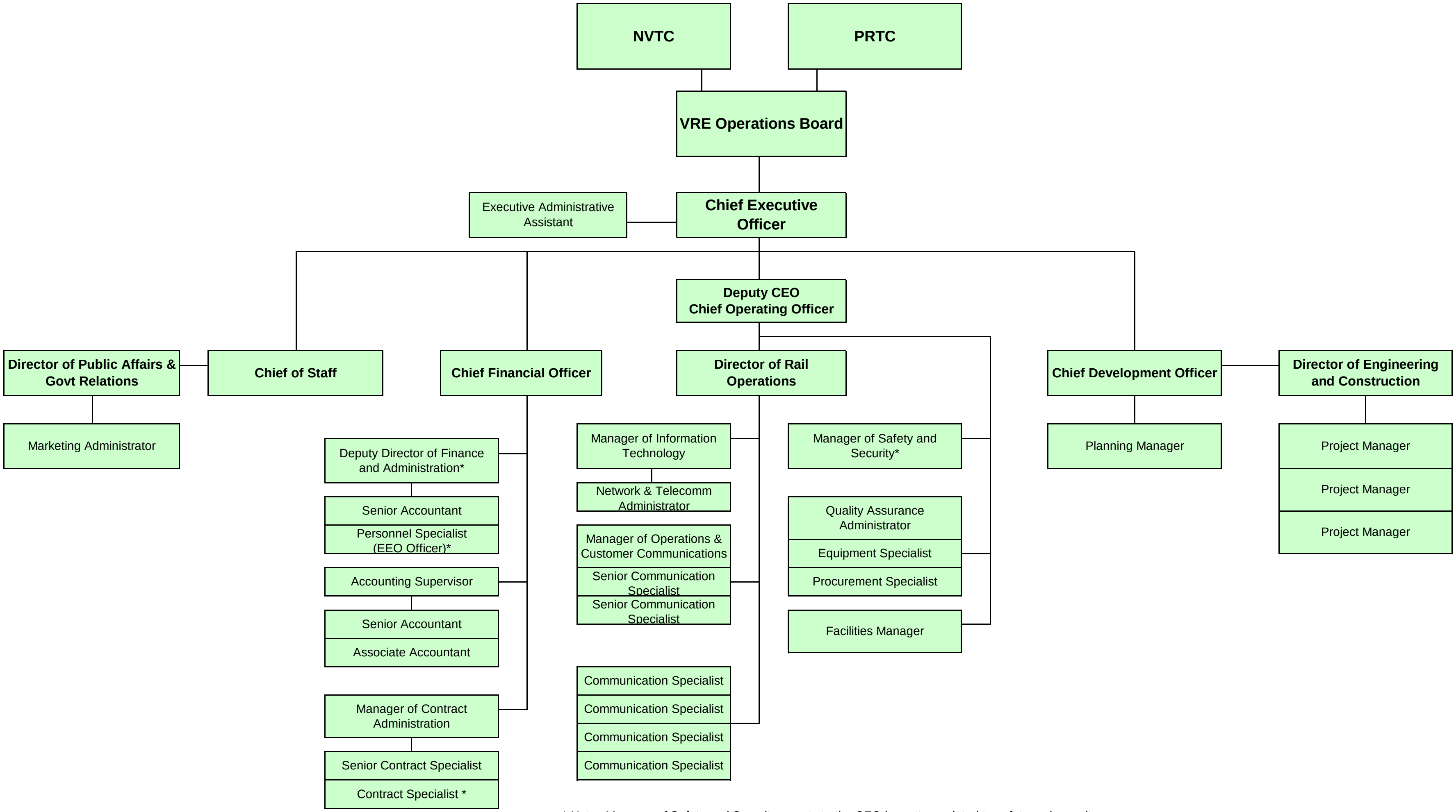
Alternates

Hon. Marc Aveni, City of Manassas
Hon. Bradford Ellis, City of Fredericksburg
Hon. Jay Fisette, Arlington County
Hon. Frank Jones, City of Manassas Park
Hon. Michael May, Prince William County
Hon. Jeff McKay, Fairfax County
Hon. Martin Nohe, Prince William County
David Awbrey, VDRPT
Hon. Benjamin Pitts, Spotsylvania County
Hon. Susan Stimpson, Stafford County

Management

Chief Executive Officer	Doug Allen
Deputy CEO & Chief Operating Officer	Richard Dalton
Chief Financial Officer	Donna Boxer, CPA
Director, Rail Operations	Chris Henry

Virginia Railway Express
Organizational Chart



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

Financial Section

PBMares

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Railway Express (VRE), a joint venture of the Northern Virginia Transportation Commission and the Potomac and Rappahannock Transportation Commission, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise VRE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Railway Express, as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information on pages 8-16 and 39, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013 on our consideration of VRE’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VRE’s internal control over financial reporting and compliance.

Other Matter

The financial statements of VRE as of June 30, 2012 were audited by PBGH, LLP, who merged with Witt Mares, PLC to form PBMares, LLP as of January 1, 2013, and whose report dated October 30, 2012, expressed an unmodified opinion on those financial statements.

PBMares, LLP

Harrisonburg, Virginia
November 4, 2013

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, 2013. 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 decreased by .2 percent compared to the prior year, from $35,025,775 to $34,972,487. Similarly, ridership decreased 2.7 percent from 4,771,987 annual trips to 4,643,898. This decrease is not considered significant for a system that is close to capacity during peak service periods.
- Operating expenses decreased by 1.5 percent from $61,626,644 to $60,719,529 as the result of decreases to fuel costs due to the implementation of a fuel conservation program, equipment maintenance costs and modest increases to CPI adjusted contractual agreements.
- Non-operating revenue and capital grants decreased by 10.1 percent from $57,568,098 to $51,777,668. This decrease reflects the completion in fiscal year 2012 of the purchase of locomotives which was reimbursed with large federal and state grants. In addition, there was minimal activity related to major construction projects during fiscal year 2013.
- The operating loss before depreciation was $25,747,042, a decrease from the previous year of 3.2 percent. Local, federal and state support is accounted for as non-operating income and is used to offset these losses.
- VRE's total net position increased by $6,882,088 from $265,969,463 to $272,851,551 primarily as the result of grants and contributions for capital improvements. At the end of the fiscal year, unrestricted net position was $35,845,639.
- During the fiscal year, capital assets, net of accumulated depreciation and amortization, decreased by 2.9 percent, as the combined result of an overall decrease in new project construction, annual depreciation and amortization, 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 Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. Comparative data for the prior fiscal year is provided for all three statements.

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

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

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

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

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 21-38 of this report.

Financial Analysis

Statements of Net Position

As noted earlier, net position may serve over time as an indicator of financial strength, although other indicators should be considered as well. A condensed summary of VRE's net position at June 30, 2013, 2012, and 2011 is shown below:

Condensed Statements of Net Position

	2013	2012	2011
ASSETS:			
Current and other assets	$ 59,825,280	$ 54,042,694	$ 55,530,426
Capital assets, net	312,047,031	321,380,255	322,205,246
Total assets	371,872,311	375,422,949	377,735,672
LIABILITIES:			
Current portion of long-term debt	9,250,400	8,866,830	8,378,899
Other current liabilities	6,707,727	8,219,368	15,119,556
Non-current liabilities	83,062,633	92,367,288	99,337,506
Total liabilities	99,020,760	109,453,486	122,835,961
NET POSITION:			
Net investment in capital assets	220,007,440	220,396,390	213,710,235
Restricted	16,998,472	17,516,300	16,912,457
Unrestricted	35,845,639	28,056,773	22,967,688
Total net position	$ 272,851,551	$ 265,969,463	$ 253,590,380

Current Year

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

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

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

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

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

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

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

Prior Year

Net position, as restated, 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 position, $220.4 million or 82.9 percent, represents its investment in capital assets (e.g., land, buildings, improvements, rolling stock, equipment, software, and accumulated depreciation and amortization), less the related indebtedness outstanding used to acquire those capital assets. VRE uses these assets to provide services to its riders; consequently, these assets are not available for future spending. The resources required to repay this debt must be provided annually from operations and federal (with PRTC as grantee), state and local support since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

A portion of VRE's net position, $17.5 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 amortization, 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 position increased approximately $.6 million or 3.6 percent.

Statements of Revenues, Expenses and Changes in Net Position

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

	2013	2012	2011
Operating revenues:			
Passenger revenue	$ 34,733,106	$ 34,721,591	$ 32,368,123
Equipment rentals and other	239,381	304,184	200,069
Total operating revenues	34,972,487	35,025,775	32,568,192
Non-operating revenues and capital grants:			
Subsidies and grants:			
Commonwealth of Virginia	15,941,312	14,739,474	20,313,115
Federal – with PRTC as grantee	19,829,222	27,178,191	56,293,414
Federal – NVTC and other	-	-	3,308,513
Jurisdictional contributions	16,428,800	15,943,917	16,070,307
In-kind and local contributions	328,031	46,924	406,331
Interest income	19,345	17,974	15,059
Loss on disposal of assets	(769,042)	(358,382)	(271,606)
Total non-operating revenues and capital grants	51,777,668	57,568,098	96,135,133
Total revenues	86,750,155	92,593,873	128,703,325
Operating expenses:			
Contract operations and maintenance	21,751,488	21,093,606	21,405,930
Other operations and maintenance	12,785,223	14,594,826	12,949,155
Property leases and access fees	13,504,023	13,123,367	11,756,531
Insurance	4,022,072	3,491,620	4,049,906
Marketing and sales	1,872,344	2,211,354	1,502,434
General and administrative	6,784,379	7,111,871	5,964,956
Total operating expenses	60,719,529	61,626,644	57,628,912
Other expenses:			
Depreciation and amortization	14,465,444	13,373,129	12,218,203
Interest, financing costs and other	4,683,094	5,215,017	5,566,829
Total other expenses	19,148,538	18,588,146	17,785,032
Total expenses	79,868,067	80,214,790	75,413,944
Change in net position	6,882,088	12,379,083	53,289,381
Net position - beginning of year, as restated	265,969,463	253,590,380	200,300,999
Net position - end of year	$ 272,851,551	$ 265,969,463	$ 253,590,380

Revenues

Current Year

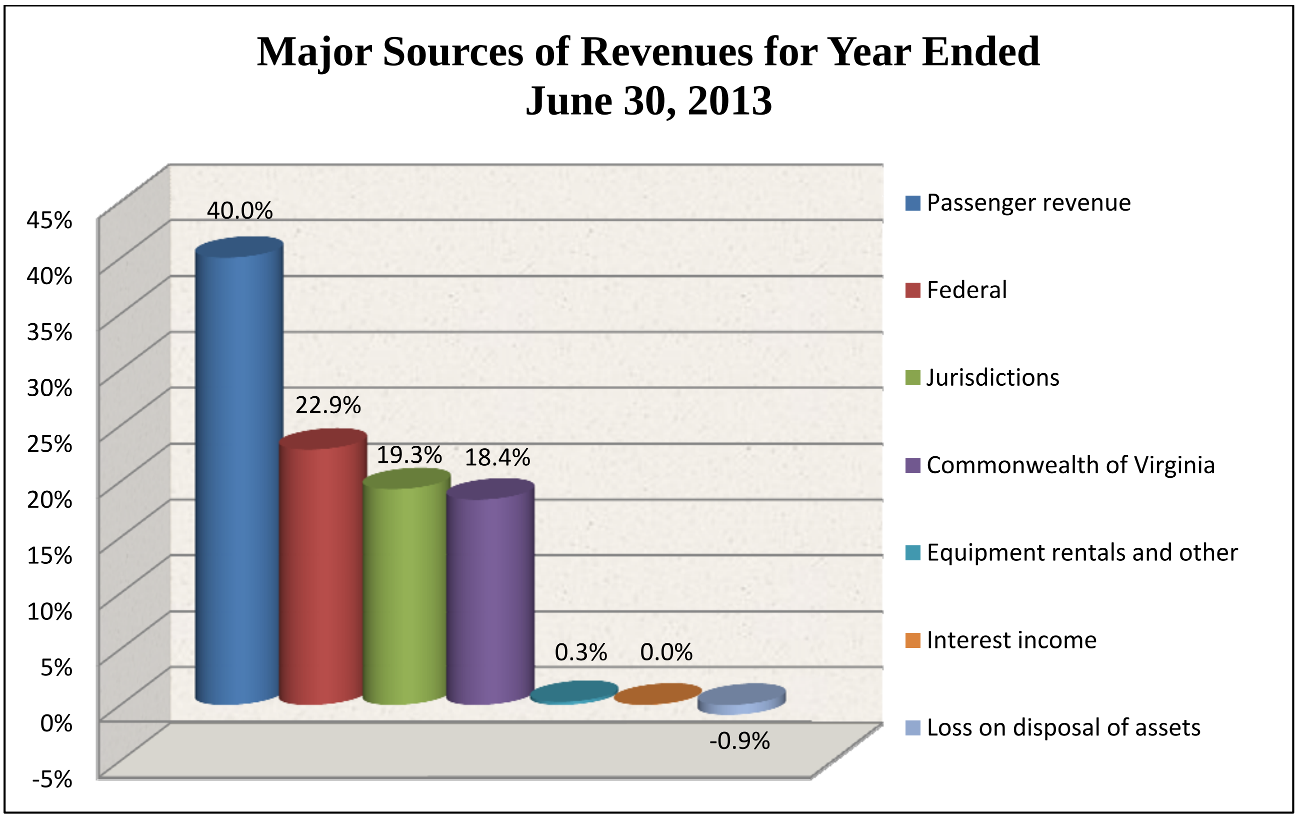
Total revenues for the current fiscal year decreased approximately $5.8 million or 6.3 percent. Operating revenues totaled slightly less than $35.0 million, a decrease of .2 percent from the prior year.

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

	June 30,		
	2013	2012	2011
Ridership	4,643,898	4,771,987	4,517,366
% Increase (Decrease)	(2.7%)	5.6%	12%

Subsidies and capital grants decreased approximately $6.1 million or 14.7 percent; this decrease is attributed to the completion of the locomotive purchase project in the prior fiscal year. Jurisdictional subsidies increased by $.5 million or 3.0 percent.

The following chart shows the major sources of revenues for the year ended June 30, 2013:



Prior 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.

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.

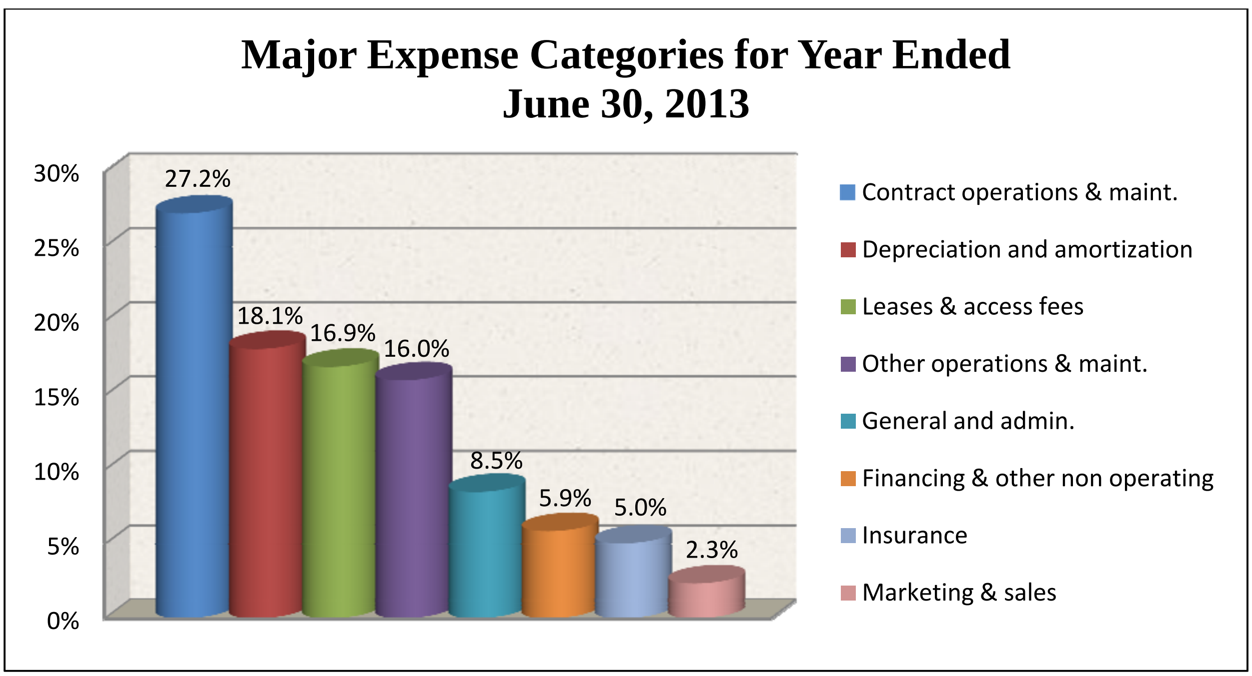
Expenses

Current Year

Total operating and other expenses, including depreciation and amortization, decreased approximately $1.7 million or 2.0 percent. Operating expenses decreased by $.9 million or 1.5 percent. Total operating expenses were approximately $60.7 million compared to approximately $61.6 million for the prior fiscal year.

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

The following chart shows the major expense categories for the year ended June 30, 2013:



Prior Year

Total operating and other expenses, as restated, increased approximately $4.8 million or 6.4 percent. Operating and other expenses increased by $6.1 million or 8.1 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.

Capital Assets and Debt Administration

Capital Assets

VRE's investment in capital assets as of June 30, 2013 amounts to $312 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.

	2013	2012	2011
Rolling stock	$ 228,936,835	$ 232,917,506	$ 218,390,607
Vehicles	99,832	99,832	99,832
Facilities	101,909,065	94,688,877	92,335,553
Track and signal improvements	52,684,367	52,684,367	52,684,367
Equipment and software	8,933,997	8,739,939	8,393,438
Construction in progress	10,125,129	12,849,876	31,683,346
Equity in property of others	5,787,287	5,244,798	5,244,798
Furniture, equipment and software	5,461,502	5,409,010	3,760,116
	413,938,014	412,634,205	412,592,057
Less accumulated depreciation and amortization	(101,890,983)	(91,253,950)	(90,386,811)
Total capital assets, net	$ 312,047,031	$ 321,380,255	$ 322,205,246

Current Year

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

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

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 2012, 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, and the result of annual depreciation and amortization recognized. 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.

Debt Administration

At June 30, 2013, VRE had total debt outstanding of $92,039,591. 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 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.

	2013	2012	2011
Revenue bonds	$ 12,775,000	$ 18,685,000	$ 24,295,000
Capital leases	17,668,825	18,751,762	19,786,652
Notes payable (includes RRIF)	61,595,766	63,729,659	63,685,611
Total	$ 92,039,591	$ 101,166,421	$ 107,767,263

VRE has access to a line of credit of up to $1 million with SunTrust Bank; the line was not utilized during 2013. 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 4% will be implemented at the beginning of fiscal year 2014. The local subsidy for fiscal year 2014 was held constant at $16,428,800. Additional sources of funding will be available in fiscal year 2014 from federal, state and regional sources, although the amounts received will continue to be variable from year to year.

Request for Information

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

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF NET POSITION
June 30, 2013 and 2012

ASSETS	**2013**	2012
Current Assets:		
Cash and cash equivalents	**$ 23,376,754**	$ 6,149,443
Accounts receivable:		
Due from PRTC - funded by FTA	**9,838,627**	20,453,692
Commonwealth of Virginia grants	**3,748,152**	3,631,920
Trade receivables, net of allowance for doubtful accounts	**1,565,293**	1,374,764
Other receivables	**342,442**	98,728
Inventory	**3,515,707**	4,272,638
Prepaid expenses and other	**439,833**	506,250
Restricted cash, cash equivalents and investments	**16,998,472**	17,555,259
Total current assets	**59,825,280**	54,042,694
Capital assets:		
Rolling stock	**228,936,835**	232,917,506
Vehicles	**99,832**	99,832
Facilities	**101,909,065**	94,688,877
Track and signal improvements	**52,684,367**	52,684,367
Equipment and software	**8,933,997**	8,739,939
Construction in progress	**10,125,129**	12,849,876
Equity in property of others	**5,787,287**	5,244,798
Furniture, equipment and software	**5,461,502**	5,409,010
	413,938,014	412,634,205
Less accumulated depreciation and amortization	**(101,890,983)**	(91,253,950)
Total capital assets, net	**312,047,031**	321,380,255
Total assets	**$ 371,872,311**	$ 375,422,949

See Notes to Financial Statements.

LIABILITIES AND NET POSITION	**2013**	2012
Current Liabilities:		
Accounts payable	**$ 1,843,394**	$ 2,714,790
Payable to Commissions	**880,808**	589,210
Compensated absences	**32,984**	29,909
Accrued expenses	**1,710,883**	2,563,735
Accrued interest	**601,145**	767,834
Unearned revenue	**1,609,214**	1,389,077
Contract retainage	**29,299**	164,813
Current portion of bonds payable	**6,220,000**	5,910,000
Current portion of capital lease obligations	**1,133,214**	1,082,937
Current portion of notes payable	**1,897,186**	1,873,893
Total current liabilities	**15,958,127**	17,086,198
Noncurrent Liabilities:		
Bonds payable, net	**6,555,000**	12,592,444
Capital lease obligations	**16,535,611**	17,668,825
Notes payable	**59,698,580**	61,855,766
Compensated absences	**273,442**	250,253
Total noncurrent liabilities	**83,062,633**	92,367,288
Total liabilities	**99,020,760**	109,453,486
Net Position:		
Net investment in capital assets	**220,007,440**	220,396,390
Restricted for liability insurance plan	**10,294,874**	10,156,492
Restricted for debt service and capital lease	**6,563,328**	6,408,466
Restricted grants or contributions	**140,270**	951,342
Unrestricted assets	**35,845,639**	28,056,773
Total net position	**272,851,551**	265,969,463
Total liabilities and net position	**$ 371,872,311**	$ 375,422,949

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues:		
Passenger revenue	**$ 34,733,106**	$ 34,721,591
Equipment rentals and other	**239,381**	304,184
Total operating revenues	**34,972,487**	35,025,775
Operating Expenses:		
Contract operations and maintenance	**21,751,488**	21,093,606
Other operations and maintenance	**12,785,223**	14,594,826
Property leases and access fees	**13,504,023**	13,123,367
Insurance	**4,022,072**	3,491,620
Marketing and sales	**1,872,344**	2,211,354
General and administrative	**6,784,379**	7,111,871
Total operating expenses	**60,719,529**	61,626,644
Operating loss before depreciation and amortization	**(25,747,042)**	(26,600,869)
Depreciation and amortization	**(14,465,444)**	(13,373,129)
Operating loss	**(40,212,486)**	(39,973,998)
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	**14,967,197**	12,711,602
Federal grants – with PRTC as grantee	**18,559,490**	17,181,121
Jurisdictional contributions	**16,428,800**	15,943,917
Interest income:		
Operating funds	**18,573**	16,813
Other restricted funds	**772**	1,161
Loss on disposal of assets	**(769,042)**	(358,382)
Interest, amortization and other nonoperating expenses, net	**(4,683,094)**	(5,215,017)
Total nonoperating revenues, net	**44,522,696**	40,281,215
Capital grants and assistance:		
Commonwealth of Virginia grants	**974,115**	2,027,872
Federal grants – with PRTC as grantee	**1,269,732**	9,997,070
Other local contributions	**328,031**	46,924
Total capital grants and assistance	**2,571,878**	12,071,866
Change in net position	**6,882,088**	12,379,083
Net Position, beginning, as restated	**265,969,463**	253,590,380
Net Position, ending	**$ 272,851,551**	$ 265,969,463

See Notes to Financial Statements.

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities:		
Receipts from customers	**$ 35,018,388**	$ 37,418,130
Payments to suppliers	**(56,830,733)**	(57,114,663)
Payments to employees	**(4,229,062)**	(4,646,027)
Net cash used in operating activities	**(26,041,407)**	(24,342,560)
Cash Flows From Noncapital Financing Activities:		
Governmental subsidies	**50,988,335**	37,855,195
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	**(6,519,551)**	(17,757,841)
Capital grants and assistance	**11,777,856**	14,257,114
Proceeds from sale of capital assets	**240,000**	507,555
Principal paid on capital lease obligations	**(1,082,937)**	(1,034,890)
Principal paid on notes	**(2,133,893)**	(1,770,591)
Principal paid on bonds	**(5,910,000)**	(5,610,000)
Interest paid on capital lease obligation	**(848,420)**	(896,467)
Interest paid on bonds and notes	**(3,818,804)**	(4,250,764)
Net cash used in capital and related financing activities	**(8,295,749)**	(16,555,884)
Cash Flows From Investing Activities:		
Interest received on investments	**19,345**	17,997
Increase (decrease) in cash and cash equivalents	**16,670,524**	(3,025,252)
Cash and Cash Equivalents, beginning	**23,704,702**	26,729,954
Cash and Cash Equivalents, ending	**$ 40,375,226**	$ 23,704,702
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:		
Operating loss	**$ (40,212,486)**	$ (39,973,998)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	**14,465,444**	13,373,129
Loss on disposal of assets	**-**	166,624
(Increase) decrease in:		
Accounts receivable	**(190,529)**	2,314,764
Other receivables	**1,047**	(3,064)
Inventory	**(99,853)**	332,350
Prepaid expenses and other	**66,417**	(18,897)
Increase (decrease) in:		
Accounts payable and accrued expenses	**(306,830)**	(614,123)
Unearned revenue	**235,383**	80,655
Net cash used in operating activities	**$ (26,041,407)**	$ (24,342,560)
Schedule of Noncash Capital Activities:		
Capital assets acquired through accounts payable	**$ 564,294**	$ 1,174,609
Capital assets acquired through notes payable	**-**	1,814,639
Capital assets acquired through accrued liabilities	**62,219**	551,460
Capital assets acquired through in-kind contributions	**-**	13,177

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Virginia Railway Express (VRE) is accounted for as a joint venture of the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC). Pursuant to a Master Agreement signed in 1989, NVTC and PRTC (the Commissions) jointly own and operate VRE. VRE provides commuter rail service on two railroad lines, 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 was deferred until 60 days after the beginning of fiscal year 2013.

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

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting

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

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

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

***Revenue recognition*:** Intergovernmental revenues, consisting primarily of Federal (with PRTC as grantee) and Commonwealth of Virginia (with NVTC as grantee) grants, designated for payment of specific expenses, are recognized at the time 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 Position when expended. VRE records monetary and in-kind contributions as it assesses matching obligations to the jurisdictions or other construction partners. Any excess of grant revenues or expenses at year end are recorded as unearned revenue or accounts receivable, respectively.

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

***Restricted cash and cash equivalents*:** Restricted cash, cash equivalents and investments of $16,998,472 and $17,555,259 at June 30, 2013 and 2012, 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 both June 30, 2013 and 2012.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

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

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

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

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

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

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

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

When, in the opinion of management, certain assets are impaired, any estimated decline in value is accounted for as a non-operating expense. There were no impaired assets as of June 30, 2013.

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, 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, 2013, the book balance of VRE's deposits with banks was $2,875,042.

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, 2013, VRE had investments of $20,694,655 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, 2013, VRE had $10,241,951 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 $6,563,328 at June 30, 2013 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, 2013, the carrying values and maturity of VRE's investments were as follows:

Investment Type	Fair Value	Maturities Less than 1 Year
LGIP	$ 20,694,655	$ 20,694,655
Insurance trust fund – pooled funds	10,241,951	10,241,951
Money market funds – U. S. Treasuries	6,563,328	6,563,328
Total investments	$ 37,499,934	$ 37,499,934

Note 3. Capital Assets

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

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

Note 3. Capital Assets (Continued)

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 property of others	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 property of others	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 4. Related Party Transactions

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2013 and 2012, these payments included $4,553,412 and $4,350,169 of salary-related costs and $5,090 and $5,457 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 $70,000 to NVTC and $100,760 and $88,700 to PRTC during 2013 and 2012, 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 $5,435 and $8,684 in 2013 and 2012, respectively. Amounts payable to NVTC and PRTC were $6,306 and $874,502 at June 30, 2013 and $12,794 and $576,416, respectively, at June 30, 2012.

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 period 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 were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty 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 as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.

- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty 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 most recent report may be obtained from the VRS Web site at http://www.varetire.org/pdf/publications/2012-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 5. Defined Benefit Pension Plan (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00 percent of their compensation toward their retirement. All or part of the 5.00 percent member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to five years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, VRE is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. VRE's contribution rate for the fiscal year ended June 30, 2013 was 8.04 percent of annual covered payroll and 1.19 percent for group life insurance.

C. Annual Pension Cost

For fiscal year 2013, VRE's annual pension cost of $274,958 was equal to the VRE's required and actual contributions.

Three-Year Trend Information for VRE

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	$ 334,185	100.0%	$ -
June 30, 2012	344,169	100.0%	-
June 30, 2013	274,958	100.0%	-

The fiscal year 2013, required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.0 percent, (b) projected salary increases ranging from 3.75 percent to 6.20 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 for Plan 1 employees and 2.25 percent for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50 percent. The actuarial value of the 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 payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 29 years.

Note 5. Defined Benefit Pension Plan (Continued)

D. Funded Status and Funding Process

As of June 30, 2012, the most recent actuarial valuation date, the plan was 83.30 percent funded. The actuarial accrued liability for benefits was $10,544,864 and the actuarial value of assets was $8,783,862, resulting in an unfunded actuarial accrued liability (UAAL) of $1,761,002. The covered payroll (annual payroll of active employees of the plan) was $6,045,347 and the ratio of the UAAL to the covered payroll was 29.13 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, 2013 and 2012, annual track usage fees totaled approximately $7,991,000 and $7,645,000, respectively, and facility and other identified costs totaled approximately $465,000 and $450,000, 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, 2013 and 2012, costs for track access and equipment storage totaled approximately $5,392,000 and $5,248,000, respectively, and mid-day maintenance, utility and other services totaled approximately $3,817,000 and $3,938,000, 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.

The Commissions have a contract with Keolis Rail Services Virginia, LLC for train operations and maintenance for a five year period beginning June 25, 2010. The cost of train operations and maintenance for the years ended June 30, 2013 and 2012 totaled approximately $17,945,000 and $17,474,000, 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.

Note 7. Long-Term Debt Obligations

The following is a summary of long-term liability activity for the year ended June 30, 2013:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue Bonds	$ 18,685,000	$ -	$ (5,910,000)	$ 12,775,000	$ 6,220,000
Capital Leases	18,751,762	-	(1,082,937)	17,668,825	1,133,214
Notes Payable	63,729,659	-	(2,133,893)	61,595,766	1,897,186
	101,166,421	-	(9,126,830)	92,039,591	9,250,400
Compensated Absences	280,162	240,826	(214,562)	306,426	32,984
	$ 101,446,583	$ 240,826	$ (9,341,392)	$ 92,346,017	$ 9,283,384

The balance of deferred bond, lease and note costs at June 30, 2012 were written off to comply with GASB Statement No. 65 and are not reflected in interest expense in fiscal year 2013. Additional information is provided in Note 11. Federal arbitrage regulations apply to VRE's revenue bonds and the Gallery IV capitalized lease.

Revenue Bonds:

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

Years Ending June 30,	Principal	Interest	Total Required
2014	$ 6,220,000	$ 519,494	$ 6,739,494
2015	6,555,000	176,166	6,731,166
	$ 12,775,000	$ 695,660	$ 13,470,660

Note 7. Long-Term Debt Obligations (Continued)

The Indentures of Trust for the bonds require the maintenance of an operating reserve equivalent to one-third (33.3 percent) of annual budgeted operating expenses. As of June 30, 2013 and 2012, VRE designated $42,826,808 and $36,465,980 respectively, of its cash, inventory and receivables as this operating reserve. The reserves represented 66.63 percent and 62.17 percent and of budgeted operating expenses for June 30, 2013 and 2012, 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, 2013 and 2012, are as follows:

	2013	2012
Bond Interest Fund	$ 343,328	$ 498,466
Bond Principal Fund	6,220,000	5,910,000
Total held by Trustee	$ 6,563,328	$ 6,408,466

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 $20,806,067.	$17,668,825

Future minimum lease payments as of June 30, 2013 are as follows:

Years Ending June 30,	Amount
2014	$ 1,931,357
2015	1,931,357
2016	1,931,357
2017	1,931,357
2018	1,931,357
2019-2023	9,656,785
2024-2025	3,862,714
Total minimum lease payments	23,176,284
Lease amount representing interest	5,507,459
Present value of lease payments	$ 17,668,825

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 $93,152,215 at June 30, 2013.

$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%	$	61,595,766

Mandatory debt service requirements are as follows:

Years Ending June 30,		Principal		Interest		Total Required
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		2,290,688		2,492,825		4,783,513
2019-2023		13,221,616		10,695,946		23,917,562
2024-2028		16,732,721		7,184,841		23,917,562
2029-2033		21,195,134		2,722,429		23,917,563
	$	61,595,766	$	34,074,486	$	95,670,252

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 in 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 was payable monthly and the note was secured by the office condominium. The balance outstanding was $320,000 for the year ended June 30, 2012. In November 2012, VRE paid off the remaining balance of the note.

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, 2013 and 2012. 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 $226,000 at June 30, 2013 and $240,000 at June 30, 2012.

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2006, all plan assets have been invested in the Department of Treasury common pool. Activity in the Insurance Trust Fund for the years ended June 30, 2013 and 2012 was as follows:

	2013	2012
Beginning balance, July 1	$ 10,156,492	$ 10,052,968
Contribution to reserves	4,100,000	3,619,260
Insurance premiums paid	(3,924,984)	(3,459,693)
Claims mitigation costs and losses incurred	(4,916)	(3,558)
Actuarial and administrative charges	(60,241)	(52,485)
Transfer to VRE for small liability claims	(24,400)	-
Ending balance, June 30	$ 10,241,951	$ 10,156,492

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, 2013, 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, 2013:

Stations and parking lots	$ 1,697,350
Rolling Stock	22,371,958
Maintenance and layover yards	805,166
Track and signal improvements	879,555
Other administrative	73,069
Total	$ 25,827,098

Note 10. Contingencies and Contractual Commitments (Continued)

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 2013, VRE was holding the proceeds of the sale of older equipment in the amount of $140,270 in a restricted account, to 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. Restatement of Beginning Net Position

The following table shows the change to the beginning net position from the amounts previously reported:

Balance at June 30, 2011	$ 254,899,711
Deferred bond and lease cost written off to comply with GASB Statement No. 65	(1,309,331)
Balance at June 30, 2011, as restated	$ 253,590,380

Note 12. Pending GASB Statements

At June 30, 2013, 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. 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. Pending GASB Statements (Continued)

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government /combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013.

Note 13. Subsequent Events

VRE entered into contracts at various times from February 2013 through September 2013 to purchase fuel at set prices for delivery in July 2013 through June 2014. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 714,000 gallons of fuel at a cost of approximately $2.3 million.

In July 2013, VRE entered into contracts for the construction of a third track and a new station in Spotsylvania County amounting to $8.1 million and $2.3 million, respectively. In September 2013, the Operations Board authorized the Chief Executive Officer to execute an agreement with CSX Transportation for flagging and signal system and related construction for the Spotsylvania third track project in an amount not to exceed $20.5 million.

In October 2013, the Commissions authorized the Chief Executive Officer of VRE to execute a sole source contract for positive train control equipment and installation services in an amount not to exceed $7.4 million, following the recommendation of the Operations Board in September 2013.

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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
2012	$ 8,783,862	$ 10,544,864	$ 1,761,002	83.30%	$ 6,045,347	29.13%
2011	8,237,980	9,730,413	1,492,433	84.66%	5,751,116	25.95%
2010	7,503,689	8,539,776	1,036,087	87.87%	5,733,383	18.07%

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Statistical Section

STATISTICAL SECTION

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

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VIRGINIA RAILWAY EXPRESS

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

	Year Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating Revenues:										
Passenger revenue	**$ 34,733,106**	$ 34,721,591	$ 32,368,123	$ 30,019,730	$ 25,909,794	$ 21,688,092	$ 19,685,561	$ 19,453,436	$ 19,452,162	$ 16,929,629
Equipment rentals and other	**239,381**	304,184	200,069	247,375	124,926	133,242	206,558	442,517	121,373	188,256
Total operating revenues	**34,972,487**	35,025,775	32,568,192	30,267,105	26,034,720	21,821,334	19,892,119	19,895,953	19,573,535	17,117,885
Nonoperating Revenues:										
Commonwealth of Virginia grants	**15,941,312**	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
Federal grants - with PRTC as grantee	**19,829,222**	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
Jurisdictional contributions	**16,428,800**	15,943,917	16,070,307	16,376,968	17,275,500	13,379,155	8,802,762	6,878,061	6,352,999	6,352,890
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
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
Pass-through to Fairfax County	-	-	-	-	(4,456,818)	-	-	-	-	-
In-kind and other local contributions	**328,031**	46,924	406,331	680,631	1,903,284	925,338	-	-	266,148	3,143,319
Interest income:										
Operating funds	**19,345**	16,813	14,675	23,893	129,620	399,553	850,490	367,292	214,888	44,390
Insurance trust	-	-	-	65,164	241,003	400,204	329,252	721,919	688,816	837,583
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	**(769,042)**	(358,382)	(271,606)	(393,419)	-	-	-	-	-	-
Total nonoperating revenues	**51,777,668**	57,568,098	96,135,133	71,212,556	68,326,404	73,378,727	55,253,086	47,233,023	36,912,678	34,985,777
Total revenues	**86,750,155**	92,593,873	128,703,325	101,479,661	94,361,124	95,200,061	75,145,205	67,128,976	56,486,213	52,103,662
Operating Expenses:										
Contract operations and maintenance	**21,751,488**	21,093,606	21,405,930	20,291,361	18,694,757	17,433,267	16,982,189	14,619,521	14,144,414	14,212,476
Other operations and maintenance	**12,785,223**	14,594,826	12,949,155	12,055,009	12,575,004	11,562,892	10,130,233	9,304,325	7,928,107	5,466,313
Property leases and access fees	**13,504,023**	13,123,367	11,756,531	9,482,367	8,686,385	8,279,505	8,636,947	8,986,974	8,769,866	8,163,632
Insurance	**4,022,072**	3,491,620	4,049,906	3,864,366	3,866,438	4,099,475	5,169,441	3,521,858	3,533,503	3,275,081
Marketing and sales	**1,872,344**	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
General and administrative	**6,784,379**	7,111,871	5,964,956	5,642,360	5,492,566	5,151,117	5,164,332	5,219,514	5,282,641	5,041,238
Depreciation and amortization	**14,465,444**	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
Total operating expenses	**75,184,973**	74,999,773	69,847,115	63,931,917	61,237,745	58,703,597	57,119,941	50,874,773	47,660,467	44,033,987

	Year Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Nonoperating (Revenues) Expenses:										
Interest and amortization	**4,683,094**	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
(Gain) loss on sale of assets	-	-	-	-	(4,218,641)	3,176,932	291,306	1,366,531	3,640,928	-
Total nonoperating expenses, net	**4,683,094**	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
Total expenses	**79,868,067**	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
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
Change in net position	**$ 6,882,088**									

Notes:

(1) This table reports financial information based on the accrual basis of accounting. VRE implemented GASB Statement 63, the new reporting standard, in fiscal year 2013. This standard eliminated the use of the term 'net assets' and now refers to this measurement as 'net position.'

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

VIRGINIA RAILWAY EXPRESS

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

	June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net investment in capital assets	**$ 220,007,440**	$ 220,396,390	$ 213,710,235	$ 165,407,433	$ 144,566,529	$ 114,677,949	$ 87,827,971	$ 68,818,859	$ 56,669,086	$ 60,040,916
Restricted for liability insurance plan	**10,294,874**	10,156,492	10,052,968	9,511,797	8,229,082	7,470,123	6,524,971	10,204,517	12,439,017	15,290,158
Restricted for debt service and capital lease	**6,563,328**	6,408,466	6,259,239	5,980,313	5,850,112	7,287,789	7,213,804	7,008,351	6,873,135	6,856,446
Restricted grants or contributions	**140,270**	951,342	600,250	34,619	194,193	1,269,313	785,173	14,013	726,456	-
Unrestricted assets	**35,845,639**	28,056,773	22,967,688	20,676,168	10,905,605	7,712,570	7,251,572	8,571,877	7,975,694	1,568,228
Total net assets		$ 265,969,463	$ 253,590,380	$ 201,610,330	$ 169,745,521	$ 138,417,744	$ 109,603,491	$ 94,617,617	$ 84,683,388	$ 83,755,748
Total net position	**$ 52,844,111**									

Notes:

(1) This table reports financial information based on the accrual basis of accounting. VRE implemented GASB Statement 63, the new reporting standard, in fiscal year 2013. This standard eliminated the use of the term 'net assets' and now refers to this measurement as 'net position.'

(2) Method of reporting was revised for fiscal year 2011.

(3) Fiscal year 2011 balance restated to comply with GASB Statement 65.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF OUTSTANDING DEBT
Last Ten Fiscal Years
(Unaudited)

	Year Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
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
$23,000,000 Commuter Rail Revenue Bond, Series 1997	**-**	-	-	-	-	14,635,000	15,690,000	16,690,000	17,645,000	18,555,000
$31,700,000 Commuter Rail Revenue Bond, Series 1998	**12,775,000**	18,685,000	24,295,000	24,425,000	24,550,000	24,670,000	24,785,000	24,895,000	25,000,000	25,100,000
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
$25,100,000 Capitalized Lease Obligation	**17,668,825**	18,751,762	19,786,652	20,775,627	21,720,726	22,623,892	23,486,988	24,311,791	25,100,000	-
Notes Payable:										
$900,000 SunTrust Bank	**-**	320,000	380,000	440,000	500,000	560,000	605,000	660,000	720,000	780,000
$68,953,914 FRA Notes (#1-#16)	**61,595,766**	63,409,659	63,305,611	63,749,851	56,122,937	26,970,555	-	-	-	-
Outstanding as of June 30	**$ 92,039,591**	$ 101,166,421	$ 107,767,263	$ 114,455,478	$ 112,768,663	$ 104,330,112	$ 84,386,707	$ 90,767,224	$ 97,012,951	$ 77,113,938
Debt per Capita:										
Outstanding as of June 30	**$ 92,039,591**	$ 101,166,421	$ 107,767,263	$ 114,455,478	$ 112,768,663	$ 104,330,112	$ 84,386,707	$ 90,767,224	$ 97,012,951	$ 77,113,938
Total Participating Jurisdictional Population	**N/A**	N/A	2,188,656	2,146,227	2,116,826	2,079,204	2,045,670	2,026,082	2,000,311	1,966,534
Debt per Capita	**N/A**	N/A	$ 49.24	$ 53.33	$ 53.27	$ 50.18	$ 41.25	$ 44.80	$ 48.50	$ 39.21
Outstanding Debt as a Percentage of Personal Income:										
Outstanding as of June 30	**$ 92,039,591**	$ 101,166,421	$ 107,767,263	$ 114,455,478	$ 112,768,663	$ 104,330,112	$ 84,386,707	$ 90,767,224	$ 97,012,951	$ 77,113,938
Total Personal Income	**N/A**	N/A	125,535,565,000	124,749,155,000	124,152,337,000	123,874,456,000	116,871,257,000	110,562,509,000	104,445,746,000	90,564,368,000
Total Outstanding Debt as a Percentage of Personal Income	**N/A**	N/A	0.09%	0.09%	0.09%	0.08%	0.07%	0.08%	0.09%	0.09%

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

(1) Fairfax County fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table 4.0, page 253
(2) Prince William County fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 181
(3) City of Manassas fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table XIII, page 122
(4) City of Manassas Park fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 120
(5) Stafford County fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table S-14; page 111
(6) City of Fredericksburg fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 136
(7) Spotsylvania County fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table S-13, page 137
(8) City of Alexandria fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Tables XI & XIV, pages 132 & 134
(9) Arlington County fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table K, page 176

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF JURISDICTIONAL CONTRIBUTIONS
Last Ten Fiscal Years
(Unaudited)

	Year Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Fairfax County	**$ 4,511,265**	$ 4,876,961	$ 4,906,693	$ 4,995,535	$ 5,507,805	$ 4,700,508	$ 3,935,736	$ 3,159,643	$ 2,963,820	$ 2,972,946
City of Fredericksburg	**339,064**	420,566	405,980	508,503	482,764	330,713	111,115	73,827	57,544	68,276
City of Manassas	**642,662**	817,993	871,611	883,443	938,897	655,077	428,436	276,306	270,924	270,494
City of Manassas Park	**441,702**	566,504	544,763	537,496	567,082	359,574	183,686	179,422	149,758	129,178
Prince William County	**4,761,324**	5,859,007	6,384,660	6,173,028	6,511,839	4,624,876	2,961,241	2,236,676	2,061,006	1,956,546
Stafford County	**1,892,640**	2,505,805	2,634,002	2,971,727	2,974,507	2,429,735	917,147	699,424	609,222	726,297
Spotsylvania County	**3,510,352**	577,020	-	-	-	-	-	-	-	-
City of Alexandria	**133,894**	129,944	130,974	124,737	118,797	113,140	107,752	102,621	97,734	93,080
Arlington County	**195,897**	190,117	191,624	182,499	173,809	165,532	157,649	150,142	142,992	136,183
Total contributions	**$ 16,428,800**	$ 15,943,917	$ 16,070,307	$ 16,376,968	$ 17,275,500	$ 13,379,155	$ 8,802,762	$ 6,878,061	$ 6,353,000	$ 6,353,000

Source: VRE's Department of Finance.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF MISCELLANEOUS STATISTICS
Last Ten Fiscal Years
(Unaudited)

	Year Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Rolling Stock (Owned or Leased)										
Locomotives	**20**	22	25	20	21	18	19	20	20	19
Railcars	**91**	91	101	95	91	89	90	90	90	90
Total rolling stock	**111**	113	126	115	112	107	109	110	110	109
Stations	**18**	18	18	18	18	18	18	18	18	18
Parking Spaces	**9,030**	8,824	8,824	8,691	8,505	7,227	7,284	7,273	7,273	7,009
Employees	**37**	37	37	37	37	37	36	36	34	32
Ridership and Fare Revenue Data (1):										
Total Ridership	**4,643,898**	4,771,987	4,517,366	4,033,230	3,857,646	3,628,563	3,453,561	3,637,043	3,763,740	3,562,299
Average Daily Ridership	**18,878**	19,088	18,377	16,673	15,754	14,662	13,982	14,667	15,238	14,720
Average Fare per Trip	**$ 7.48**	$ 7.28	$ 7.17	$ 7.44	$ 6.66	$ 5.98	$ 5.70	$ 5.40	$ 5.17	$ 4.76

Note:

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

Source: VRE staff

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

VIRGINIA RAILWAY EXPRESS

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

	2012			2003		
Employers	Rank	Employees	Percentage of Total Jurisdictional Employment	Rank	Employees	Percentage of Total Jurisdictional Employment
Federal Government (1) (2) (3) (4) (5)	1	63,424	N/A	1	43,082	N/A
Fairfax County Public Schools (1)	2	23,534	N/A	2	20,712	N/A
Fairfax County Government (1)	3	12,070	N/A	3	11,506	N/A
Arlington County Government (2)	4	10,777	N/A	5	9,674	N/A
Booz Allen Hamilton (1)	5	7,000-10,000	N/A	7	5,000-6,000	N/A
Inova Health System (1)	5	7,000-10,000	N/A	4	9,000-10,000	N/A
Science Applications International Corporation (1)	7	4,000-6,999	N/A	7	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	6	6,000-7,000	N/A
George Mason University (1)	7	4,000-6,999	N/A			
Computer Science Corporation (1)	-	-	-	9	4,000-5,000	N/A
Raytheon Company (1)	-	-	-	9	4,000-5,000	N/A

Sources:

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

(1) County of Fairfax fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 254
(2) County of Arlington fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table L, page 177
(3) County of Prince William fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table 17, page 182
(4) County of Stafford fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table S-16, page 113
(5) City of Alexandria fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table XIX, page 139

VIRGINIA RAILWAY EXPRESS

DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS

Fiscal Years 2003 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)	Spotsylvania County (7)	City of Alexandria (8)	Arlington County (9)
2013 (all categories)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2012									
Population	N/A	419,006	39,060	15,332	132,133	25,691	124,789	144,301	216,004
Personal Income (in thousands)	N/A	N/A	N/A	$419,100	$5,586,980	$1,011,840	N/A	$10,758,922	$17,273,192
Per Capita Personal Income	N/A	N/A	N/A	$27,335	$42,283	$39,385	N/A	N/A	$79,967
Unemployment Rate	N/A	4.9%	5.9%	4.7%	4.9%	8.8%	5.1%	4.6%	3.5%
2011									
Population	1,100,692	406,110	37,821	14,387	128,961	25,691	123,427	141,287	210,280
Personal Income (in thousands)	$71,145,429	$21,216,947	N/A	$455,635	$5,370,464	$1,011,840	N/A	$10,627,334	$15,707,916
Per Capita Personal Income	$64,637	$43,076	N/A	$31,670	$41,644	$39,385	$31,141	N/A	$74,700
Unemployment Rate	4.2%	5.3%	6.9%	5.2%	5.2%	10.3%	5.4%	4.8%	3.9%
2010									
Population	1,081,726	389,001	35,648	12,042	128,961	24,286	122,397	139,966	212,200
Personal Income (in thousands)	$72,577,324	$19,899,449	N/A	$391,776	$5,265,160	$956,504	N/A	$10,441,443	$15,217,499
Per Capita Personal Income	$67,094	$43,346	N/A	$32,534	$40,828	$39,385	$28,589	$76,362	$71,713
Unemployment Rate	4.9%	5.7%	7.4%	5.8%	5.7%	9.6%	5.8%	4.8%	4.3%
2009									
Population	1,074,227	374,776	35,883	11,410	122,800	23,353	120,977	144,100	209,300
Personal Income (in thousands)	$74,380,758	$18,561,645	N/A	$382,695	$4,915,316	$892,808	N/A	$10,178,071	$14,841,044
Per Capita Personal Income	$69,241	$42,254	N/A	$33,540	$40,027	$38,231	$29,593	$70,846	$70,908
Unemployment Rate	4.8%	5.9%	6.4%	6.5%	5.4%	9.2%	5.7%	2.8%	4.7%
2008									
Population	1,050,315	368,016	36,666	11,533	121,736	22,899	120,015	140,024	208,000
Personal Income (in thousands)	$74,385,409	$18,145,470	$918,630	$394,715	$4,897,196	$889,030	N/A	$10,204,006	$14,040,000
Per Capita Personal Income	$70,822	$42,960	$25,054	$34,225	$40,228	$38,824	$31,060	$72,220	$67,500
Unemployment Rate	3.4%	3.4%	4.8%	3.2%	3.4%	5.7%	3.4%	2.9%	2.6%
2007									
Population	1,041,507	359,174	38,066	11,527	120,723	22,651	118,939	128,283	204,800
Personal income (in thousands)	$70,500,650	$17,200,916	$904,067	$390,604	$4,497,535	$865,154	N/A	$9,507,531	$13,004,800
Per capita personal income	$67,691	$41,382	$23,750	$33,886	$37,255	$38,195	$29,611	$70,632	$63,500
Unemployment rate	2.2%	2.6%	2.7%	2.4%	2.6%	4.1%	2.5%	2.2%	2.3%
2006									
Population	1,037,311	350,612	38,066	11,652	120,170	22,044	117,718	128,283	200,226
Personal income (in thousands)	$67,111,947	$16,088,936	$922,642	$380,385	$4,291,511	$799,337	N/A	$8,835,057	$12,132,694
Per capita personal income	$64,698	$39,502	$24,238	$32,645	$35,712	$36,261	$31,458	$65,141	$60,595
Unemployment rate	2.2%	2.6%	2.9%	2.3%	2.4%	4.0%	2.4%	2.6%	2.3%
2005									
Population	1,033,646	337,439	37,000	11,369	117,674	21,724	114,909	128,283	198,267
Personal income (in thousands)	$63,917,568	$15,012,664	$909,336	$361,406	$4,021,156	$746,914	N/A	$7,776,966	$11,699,736
Per capita personal income	$61,837	$37,577	$24,577	$31,789	$34,172	$34,382	$31,720	$61,147	$59,010
Unemployment rate	2.5%	3.0%	2.8%	2.1%	2.7%	4.8%	2.3%	3.1%	2.5%

	Fairfax County (1)	Prince William County (2)	City of Manassas (3)	City of Manassas Park (4)	Stafford County (5)	City of Fredericksburg (6)	Spotsylvania County (7)	City of Alexandria (7)	Arlington County (8)
2004									
Population	1,022,298	323,377	36,500	10,930	114,513	21,342	110,552	128,283	198,739
Personal income (in thousands)	$58,830,183	$13,723,915	$849,793	$343,776	$3,687,891	$688,514	N/A	$7,435,257	$11,497,250
Per capita personal income	$57,547	$35,556	$23,282	$31,453	$32,205	$32,261	$31,950	$58,365	$57,851
Unemployment rate	2.7%	3.1%	3.1%	2.0%	2.8%	5.1%	2.5%	3.2%	2.6%
2003									
Population	1,012,090	311,749	36,300	10,881	109,341	20,641	106,576	128,283	196,925
Personal income (in thousands)	$54,771,275	$12,399,884	$843,820	$321,394	$3,320,030	$635,536	N/A	$7,165,859	$11,106,570
Per capita personal income	$54,117	$33,424	$23,246	$29,537	$30,364	$30,790	$30,211	$53,711	$56,400
Unemployment rate	3.1%	3.9%	3.5%	1.8%	3.1%	5.4%	2.8%	2.9%	2.3%

Sources:

(1) Fairfax County fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table 4.0, page 253
(2) Prince William County fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 181
(3) City of Manassas fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table XIII, page 122
(4) City of Manassas Park fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 120
(5) Stafford County fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table S-14; page 111
(6) City of Fredericksburg fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 136
(7) Spotsylvania County fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table S-13, page 137
(8) City of Alexandria fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Tables XI & XIV, pages 132 & 134
(9) Arlington County fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table K, page 176

N/A = Not Available

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Compliance Section

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Virginia Railway Express (VRE), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise VRE's basic financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
November 4, 2013