

Virginia Railway Express  
**Comprehensive Annual  
Financial Report**

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006



[www.vre.org](http://www.vre.org)

Headquartered in Alexandria, Virginia

# **VIRGINIA RAILWAY EXPRESS**

**Comprehensive Annual Financial Report**

**YEARS ENDED JUNE 30, 2007 AND 2006**



Prepared by:

Department of Finance

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## Introductory Section





# Virginia Railway Express

## A Transportation Partnership

November 2, 2007

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

I am pleased to present the Virginia Railway Express' (VRE) comprehensive annual financial report for fiscal year ended June 30, 2007. This report conforms to accounting principles generally accepted in the United States of America (GAAP) and provides full disclosure of VRE's financial position and operations for fiscal year 2007. The information provided in this report assists the VRE Operations Board, Commissions and other officials in making management decisions and provides all interested parties with comprehensive financial data in a format that will enable them to gain a true understanding of VRE's financial affairs.

The report consists of management's representations concerning the finances of VRE. Consequently, management assumes responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, VRE's management has established a comprehensive internal control framework that is designed to protect VRE's assets from loss, theft, or misuse and to gather sufficient reliable information for the preparation of VRE's financial statements in conformity with accounting principles generally accepted in the United States of America.

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

This report is presented in four sections. The introductory section includes this transmittal letter, a list of VRE Operations Board members and key VRE staff, and an organizational chart. The financial section includes the independent auditors' report, an analysis of the financial operations of VRE during the year (Management's Discussion and Analysis), the financial statements, the notes to the financial statements, and required supplementary information. The statistical section includes a number of tables of unaudited data depicting the financial and operational history of VRE, trends and other miscellaneous information. The compliance section includes the independent auditors' opinion on internal control and compliance.



## **Profile of Virginia Railway Express**

The Virginia Railway Express (VRE) is a joint venture of the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC). Both are political subdivisions of the Commonwealth of Virginia. VRE provides commuter rail service on two railroad lines originating in Fredericksburg and Manassas, Virginia, and terminating at Union Station, Washington, DC. VRE began operations in 1992 with 16 trains and 1,800 average daily riders. During fiscal year 2007, VRE operated 30 trains and served an average daily ridership of 13,982.

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

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

In order to help prioritize future needs and address potential future growth, a Long-Range Strategic Plan was completed in 2004. The plan identifies the projected ridership demand through 2025, and the capital and operating expenses necessary to meet the demand. It also examines potential network extensions, their impacts on ridership, and the costs of such expansions. The Strategic Plan provides the technical underpinning for policy and planning decisions in the upcoming years.

### **Major Initiatives**

During fiscal year 2007, VRE focused on improving systems that would ensure the future health of the rail line.

Eleven new bi-level Gallery cab cars were delivered during the fiscal year and placed in service. An option to purchase 50 more bi-level Gallery cars was approved in July 2006, with delivery planned to begin in December 2007. These cars will allow VRE to replace aging and leased equipment as well as make improvements to capacity. The next step in fleet improvements will be the purchase of 20 new locomotives.

In March 2007, the \$25 million Quantico Bridge project was completed. This project, the largest ever completed by VRE, will provide a double mainline bridge over Quantico Creek, greatly improving operational efficiency and on-time performance.

Many of VRE's station parking lots were at or above capacity in 2007, and two major parking garage projects are underway to address this constraint. A parking facility in Burke Centre is under construction and construction of a parking deck in Manassas was about to commence at year-end. For Fredericksburg line passengers, work is imminent on the environmental analysis and preliminary design for a parking facility at the Brooke station.

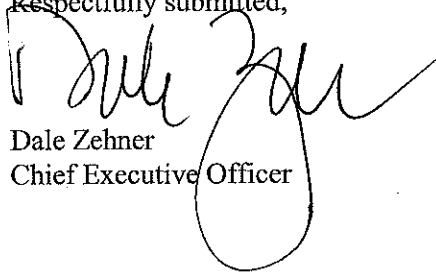


The focus of the VRE Operations Board and VRE management continues to be providing safe, reliable commuter rail service to the citizens of Northern Virginia. With the Washington, DC metropolitan area designated as an ozone non-attainment area, public transit will play an increasingly vital role in addressing the area's need to improve air quality and reduce congestion. VRE currently takes the equivalent of one full lane of traffic off of both Interstate 95 and Interstate 66 each morning and evening rush hour. VRE will need continued capital investment in order to continue to offer the high-quality, cost effective service that we have provided for the past 15 years.


### Awards and Acknowledgement

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

Respectfully submitted,



Dale Zehner  
Chief Executive Officer



Donna Boxer, CPA  
Director of Finance

## DIRECTORY OF PRINCIPAL OFFICIALS AND KEY PERSONNEL

### Operations Board

#### Officers

Chairman	Hon. Dana Kauffman, Fairfax County
Vice-Chairman	Hon. Douglas Waldron, City of Manassas
Secretary	Hon. Elaine McConnell, Fairfax County
Treasurer	Hon. Paul Milde, Stafford County

#### Members

Hon. Maureen Caddigan, Prince William County  
Hon. Wally Covington, Prince William County  
Hon. Marvin Dixon, City of Fredericksburg  
Hon. Robert Gibbons, Stafford County  
Hon. John Jenkins, Prince William County  
Hon. Frank Jones, City of Manassas Park  
Hon. Paul Smedberg, City of Alexandria  
Kevin Page, VDRPT  
Hon. Christopher Zimmerman, Arlington County

#### Alternates

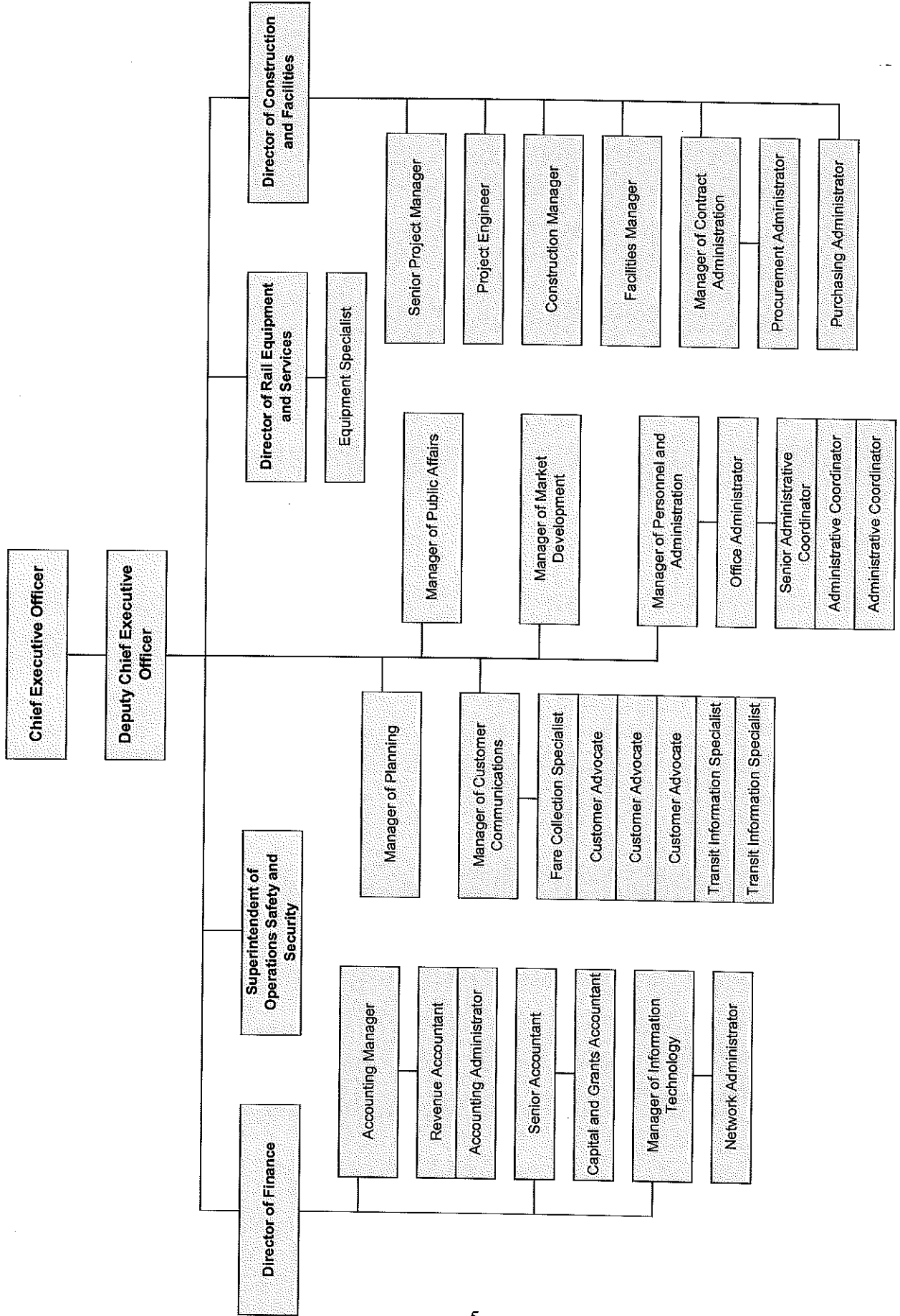
Hon. Hilda Barg, Prince William County  
Hon. Sharon Bulova, Fairfax County  
Hon. Mark Dudenhefer, Stafford County  
Hon. Jay Fisette, Arlington County  
Hon. Matthew Kelly, City of Fredericksburg  
Hon. Timothy Lovain, City of Alexandria  
Hon. Michael May, Prince William County  
Hon. Martin Nohe, Prince William County  
Matthew Tucker, VDRPT  
Hon. Harry Parrish, City of Manassas  
Hon. George Schwartz, Stafford County

### Management

Chief Executive Officer  
Deputy Chief Executive Officer  
Director, Finance  
Director, Construction and Facilities  
Superintendent Operations, Safety, and Security  
Director, Rail Equipment & Services

Dale Zehner  
Jennifer Straub  
Donna Boxer, CPA  
Sirel Mouchantaf, P.E.  
David Snyder  
Dennis Larson

# Virginia Railway Express



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## Financial Section





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An Independently Owned Member

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Virginia Railway Express, a joint venture of the Northern Virginia Transportation Commission and the Potomac and Rappahannock Transportation Commission, as of and for the year ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Virginia Railway Express' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Virginia Railway Express as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2007 on our consideration of the Virginia Railway Express' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 8 through 17 and Schedule of Funding Progress on page 37 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

PBGH, LLP

Harrisonburg, Virginia  
November 2, 2007





## 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, 2007. 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 18.

### Financial Operations and Highlights

- Operating revenues remained essentially even, at \$19,892,119, compared to \$19,895,953 the prior year. Ridership declined by 5% in fiscal year 2007 as the result of a significant decline in the system's on time performance during both fiscal years 2006 and 2007. VRE management, in conjunction with the freight railroads which own and maintain the rail lines on which VRE operates, has implemented short and long-term strategies to enhance on time performance, including the purchase of new railcars and locomotives.
- Operating expenses, excluding depreciation, increased by 10.8 percent from \$42,657,540 to \$47,244,348. The major elements of this change were as follows:
  - Insurance premium and claims costs increased by \$1,647,583, from \$3,521,858 to \$5,169,441.
  - Contract operations and repair and maintenance of rolling stock combined increased by \$2,637,480 from \$16,567,512 to \$19,204,992. This increase was the result of increased parts and repair costs for aging equipment, contractual escalations, and the transition of maintenance operations from Amtrak's Washington Union Terminal to the VRE maintenance yards.
- Non-operating revenue increased by almost 17 percent from \$47,233,023 to \$55,253,086. The biggest increases were in capital grants from the Commonwealth of Virginia and jurisdictional contributions.
- The operating loss before depreciation was \$27,352,229, an increase from the previous year of 20.2 percent. Local, federal and state support is accounted for as non-operating income and is used to offset these losses.
- VRE's total net assets increased by \$14,985,874, from \$94,617,617 to \$109,603,491. At the end of the fiscal year, unrestricted net assets were \$7,251,572.
- During the fiscal year, capital assets increased by 24.7 percent, primarily as the result of the completion of the Quantico Bridge project and the construction of eleven new Gallery cab cars.

### Overview of the Basic Financial Statements

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

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

VRE's basic financial statements are the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. Comparative data for the prior fiscal year is provided for all three statements.

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

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

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

The basic financial statements can be found on pages 18-21 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 22-36 of this report.

## Financial Analysis

### Statements of Net Assets

As noted earlier, net assets may serve over time as an indicator of financial position, although other indicators should be considered as well. A condensed summary of VRE's net assets at June 30, 2007, 2006, and 2005 is shown below:

#### Condensed Statements of Net Assets

	2007	2006	2005
<b>ASSETS:</b>			
Current and other assets	\$ 49,327,753	\$ 81,065,102	\$ 62,854,627
Capital assets, net	169,011,951	135,482,041	129,503,622
<b>Total assets</b>	218,339,704	216,547,143	192,358,249
<b>LIABILITIES:</b>			
Current portion of long term debt	6,945,970	6,550,118	6,245,727
Other current liabilities	25,430,919	32,446,091	12,148,075
Non-current liabilities	76,359,324	82,933,317	89,281,059
<b>Total liabilities</b>	108,736,213	121,929,526	107,674,861

	2007	2006	2005
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	\$ 87,827,971	\$ 68,818,859	\$ 55,182,924
Restricted	14,523,948	17,226,881	20,038,608
Unrestricted	7,251,572	8,571,877	9,461,856
<b>Total net assets</b>	<b>\$ 109,603,491</b>	<b>\$ 94,617,617</b>	<b>\$ 84,683,388</b>

### **Current Year**

Net assets increased by \$14.99 million, or 15.8 percent during the current fiscal year, due mainly to capital contributions that were used to fund rolling stock and track improvements.

The largest portion of VRE's net assets, \$87.8 million or 80.1 percent, represents its investment in capital assets (e.g., land, buildings, improvements, rolling stock and other equipment), less the related indebtedness outstanding used to acquire those capital assets. VRE uses these assets to provide services to its riders; consequently, these assets are not available for future spending. VRE's investment in its capital assets is reported net of accumulated depreciation and net of related debt. The resources required to repay this debt must be provided annually from operations and federal, state and local support since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

A portion of VRE's net assets, \$14.5 million or 13.3 percent represents resources that are restricted for the liability insurance plan and debt service or capital lease obligations, or are restricted grant funds less related liabilities.

Capital assets, net of depreciation, increased by \$33.5 million or 24.8 percent as the result of rolling stock additions and the Quantico Bridge project.

Current liabilities decreased by \$6.6 million or 17 percent because of the use of deferred grant revenue from the Commonwealth of Virginia for rolling stock additions during the year.

Noncurrent liabilities decreased by \$6.5 million or 7.9 percent because of scheduled bond repayments.

Restricted net assets decreased by \$2.7 million or 15.7 percent primarily because of a decrease to insurance trust fund assets.

### **Prior Year**

Net assets increased by \$9.9 million, or 10.5 percent during the prior fiscal year, due mainly to capital contributions that were used to fund rolling stock, track and platform improvements.

The largest portion of VRE's net assets, \$68.8 million or 72.7 percent, represented its investment in capital assets (e.g., land, buildings, improvements, rolling stock and other equipment), less the related indebtedness outstanding used to acquire those capital assets.

A portion of VRE's net assets, \$17.2 million or 18.2 percent represented resources that were restricted for the liability insurance plan and debt service or capital lease obligations, or were restricted grant funds less related liabilities.

Capital assets, net of depreciation, increased by \$5.9 million or 4.6 percent as the result of rolling stock additions and track improvements.

Current liabilities increased by \$20.6 million or 112 percent because of the receipt of unearned grant funds from the Commonwealth of Virginia at year-end for the acquisition of additional rolling stock.

Noncurrent liabilities decreased by \$6.3 million or 7.1 percent because of scheduled bond repayments.

Restricted net assets decreased by \$2.8 million or 14 percent primarily because of a decrease to insurance trust fund assets.

### Statements of Revenues, Expenses and Changes in Net Assets

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

	2007	2006	2005
<b>Operating revenues:</b>			
Fare revenue	\$ 19,685,561	\$ 19,453,436	\$ 19,452,162
Equipment rentals and other	206,558	442,517	121,373
Total operating revenues	<u>19,892,119</u>	<u>19,895,953</u>	<u>19,573,535</u>
<b>Non-operating revenues:</b>			
<b>Subsidies and grants:</b>			
Commonwealth of Virginia	21,725,539	14,907,204	11,391,168
Federal	23,504,005	23,518,164	17,948,799
Jurisdictional contributions	8,802,762	6,878,061	6,352,999
In-kind and local contributions	-	-	266,148
Interest income	1,220,780	1,929,594	953,564
Total non-operating revenues	<u>55,253,086</u>	<u>47,233,023</u>	<u>36,912,678</u>
<b>Total revenues</b>	<u>75,145,205</u>	<u>67,128,976</u>	<u>56,486,213</u>
<b>Operating expenses:</b>			
Contract operations and maintenance	16,982,189	14,619,521	14,144,414
Other operations and maintenance	10,130,233	9,304,325	7,928,107
Property leases and access fees	8,636,947	8,986,974	8,769,866
Insurance	5,169,441	3,521,858	3,533,503
Marketing and sales	1,161,206	1,005,348	1,302,527
General and administrative	5,164,332	5,219,514	5,282,641
Total operating expenses	<u>47,244,348</u>	<u>42,657,540</u>	<u>40,961,058</u>
<b>Other expenses:</b>			
Depreciation	9,875,593	8,217,233	6,699,409
Interest, financing costs and other	2,748,084	4,953,443	4,257,178
Total other expenses	<u>12,623,677</u>	<u>13,170,676</u>	<u>10,956,587</u>

Total expenses	59,868,025	55,828,216	51,917,645
Excess (deficiency) before special items	15,277,180	11,300,760	4,568,568
Special item - loss on disposal of assets	291,306	1,366,531	3,640,928
Change in net assets	14,985,874	9,934,229	927,640
Net assets - beginning of year	94,617,617	84,683,388	83,755,548
Net assets - end of year	\$ 109,603,491	\$ 94,617,617	\$ 84,683,388

## Revenues

### Current Year

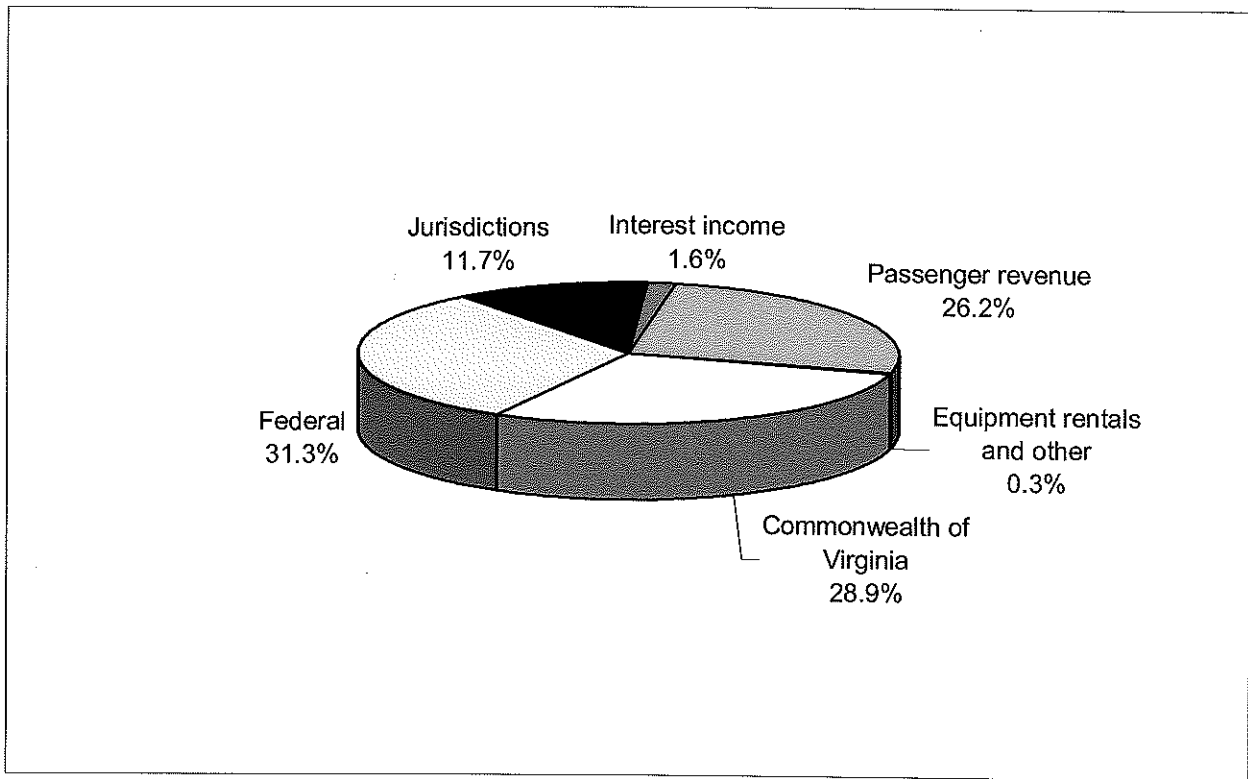
Total revenues for the current fiscal year increased by \$8.0 million or 11.9 percent. Operating revenues totaled \$19.9 million, a decrease of .02 percent from the prior year.

Passenger revenue increased by \$232,125 or 1.2 percent, the combined result of a fare increase and a ridership decrease compared to the prior year. Ridership declined by 5 percent in fiscal year 2007 as the result of a decline in the system's on time performance during both fiscal years 2006 and 2007. As noted previously, VRE management, in conjunction with the freight railroads who own and maintain the rail lines on which VRE operates, has implemented short and long-term strategies to enhance on time performance, including the purchase of new railcars and locomotives. Ridership data is provided below.

	June 30,		
	2007	2006	2005
Ridership	3,453,561	3,637,043	3,763,740
% Increase (Decrease)	(5.0%)	(3.4%)	5.7%

Subsidies and grants from the state and federal governments increased by \$6.8 million or 17.7 percent; the biggest increase was in capital grants from the Commonwealth of Virginia for the purchase of additional railcars. Jurisdictional subsidies increased by \$1.9 million or 28 percent.

The following chart shows the major sources of operating revenues for the year ended June 30, 2007:



### **Prior Year**

Total revenues for the 2006 fiscal year increased by \$10.6 million or 18.8 percent. Operating revenues totaled \$19.9 million, an increase of 1.65 percent from the prior year.

Passenger revenue increased by \$1,274 or .01 percent, the combined result of a fare increase and a ridership decrease compared to the prior year. Ridership declined by 3.4 percent in fiscal year 2006 as indicated previously.

Subsidies and grants from the state and federal governments increased by \$9.1 million or 31 percent in fiscal year 2006. The biggest increase was in capital grants from the federal government for the construction of Quantico Bridge and station improvements. Jurisdictional subsidies increased by \$525,062 or 8.26 percent.

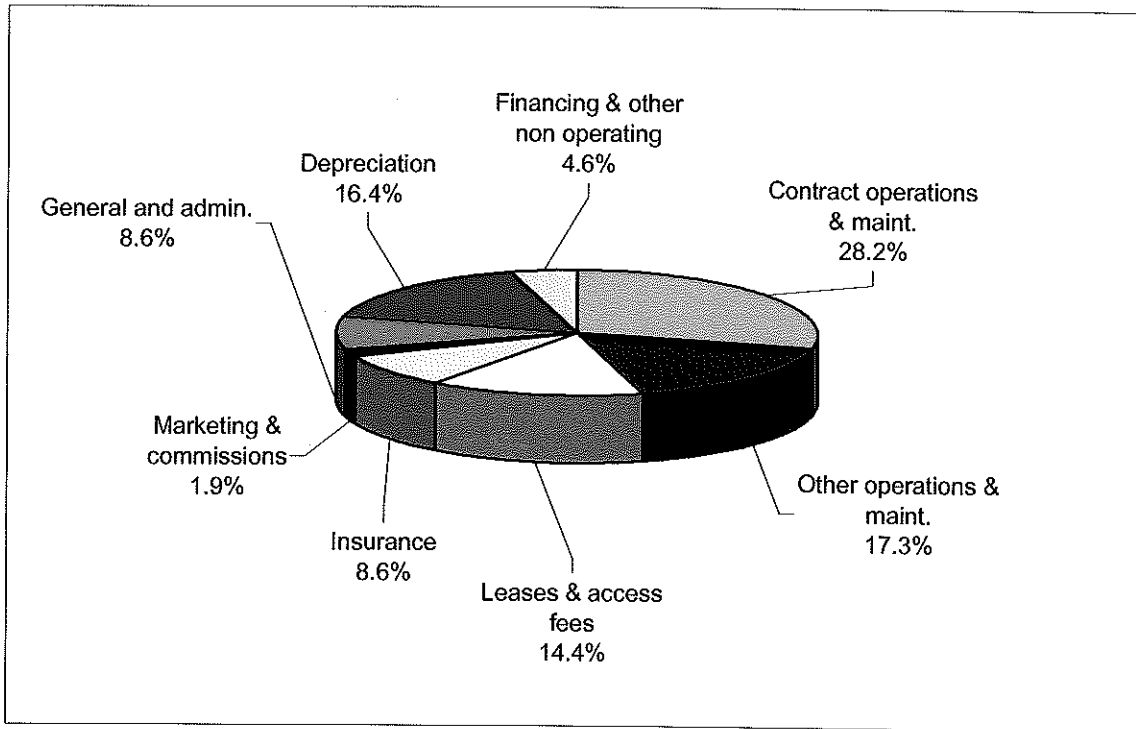
### **Expenses**

#### **Current Year**

Total operating and other expenses including depreciation increased by \$4.0 million or 7.2 percent. Operating expenses increased by \$4.6 million or 10.8 percent. Total operating expenses were \$47.2 million compared to \$42.7 million for the prior fiscal year; the major causes of this increase are described below.

Contract operations and maintenance increased by \$2.4 million or 16.2 percent. This increase was the result of increased parts and repair costs for aging equipment, contractual escalations, and the transition of maintenance operations from Amtrak's Washington Union Terminal to the VRE yards. Insurance premium and claims costs increased by \$1.6 million or 47 percent. General and administrative costs decreased by \$55,182 or 1.1 percent.

The following chart shows the major operating expense categories for the year ended June 30, 2007:



**Prior Year**

Total expenses including depreciation increased by \$3.9 million or 7.5 percent in fiscal year 2006; the major category of increase was in interest and financing costs. Operating expenses increased by \$1.7 million or 4.1 percent. Total operating expenses were \$42.7 million compared to \$41 million for fiscal year 2005. The major causes of the operating expense increase are described below.

Contract operations and maintenance increased by \$475,107 or 3.4 percent and other operations and maintenance increased by \$1.4 million or 17.4 percent. These increases were the result of increased parts and repair costs for aging equipment and contractual escalations. General and administrative costs decreased by \$63,127 or 1.2 percent.



## Capital Assets and Debt Administration

### Capital Assets

VRE's investment in capital assets as of June 30, 2007 amounts to \$169 million (net of accumulated depreciation). This investment in capital assets includes rolling stock, stations and platforms, track and signal improvements, office facilities and equipment, and equity in local property. Acquisitions are funded using a variety of financing techniques, including Federal grants with matching funds from the Commonwealth and from local subsidies.

	2007	2006	2005
Rolling stock	\$ 93,884,274	\$ 65,846,762	\$ 61,953,818
Vehicles	45,550	45,550	45,550
Facilities	58,716,180	58,494,479	41,416,189
Track and signal improvements	52,269,212	27,628,930	27,628,930
Equipment	6,329,601	5,608,372	4,862,101
Construction in progress	12,705,134	23,319,672	31,451,741
Equity in local properties	5,244,798	5,244,798	4,998,368
Office furniture and equipment	2,935,663	2,636,253	2,272,467
	<u>232,130,412</u>	<u>188,824,816</u>	<u>174,629,164</u>
Less accumulated depreciation	(63,118,461)	(53,342,775)	(45,125,542)
<b>Total capital assets, net</b>	<u><u>\$ 169,011,951</u></u>	<u><u>\$ 135,482,041</u></u>	<u><u>\$ 129,503,622</u></u>

### Current Year

During fiscal year 2007, net investment in capital assets increased by \$33.5 million or 24.75 percent. Completed projects totaling \$51.9 million were closed from construction in progress to their respective capital accounts and an additional \$2.3 million was charged directly to the capital accounts.

The major completed projects were: construction of 11 Gallery cab cars (\$26.6 million); locomotive overhaul and recording of leased locomotives as capital leases (\$1.5 million); construction of a railroad bridge over Quantico Creek (\$24.6 million); installation of security cameras at stations (\$648,108); and installation of an emergency backup power generator at the Alexandria office (\$122,810). In addition, four leased railcars were returned to Sound Transit and the improvements recorded for those railcars were removed from VRE's accounts.

The major additions to construction in progress during the fiscal year was for acquisition of additional railcars.

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

### **Prior Year**

During fiscal year 2006, net investment in capital assets increased by \$6 million or 4.6 percent. Completed projects totaling \$21.3 million were closed from construction in progress to their respective capital accounts and an additional \$1 million was charged directly to the capital accounts.

The major completed projects were: re-qualification of 13 Gallery cars (\$3.3 million); overhaul of Gallery trucks and rebuilding of locomotives (\$579,336); renovation of Washington Union terminal (\$11.3 million); Manassas Park platform extension (\$1.2 million); power installation and re-grading at Broad Run and Crossroads yards (\$1.2 million); various projects at Ivy City yard (\$462,135); and the construction of additional parking at Manassas Park and Broad Run (\$1.1 million).

### **Debt Administration**

At June 30, 2007, VRE had total debt outstanding of \$84,386,707. The revenue bond debt for VRE is issued under the name of the Northern Virginia Transportation Commission (NVTC). VRE revenues back the bonds and VRE is responsible for making debt service payments. A financial guaranty bond guarantees payment of each bond series. The note payable is secured by VRE's office condominium, and the capital leases are secured by the related equipment.

	2007	2006	2005
Revenue bonds	\$ 59,275,000	\$ 64,530,000	\$ 69,540,000
Capital leases	24,506,707	25,577,224	26,750,951
Note payable	605,000	660,000	720,000
<b>Total</b>	<b>\$ 84,386,707</b>	<b>\$ 90,767,224</b>	<b>\$ 97,010,951</b>

VRE has access to a line of credit of up to \$1 million with SunTrust Bank; the line was not exercised during 2007. For further information, please refer to Note 7 in the financial statements.

### **Economic Factors and Next Year's Budget**

Population growth in Northern Virginia, especially in the outer suburbs, continues to remain robust. In combination with the congestion on major highways and on-going highway construction projects, this growth will continue to increase demand for VRE's service. The constraining factors to VRE growth are station parking, availability of seats and not sustaining an on time train service.

In order to maintain and enhance ridership levels, the fiscal year 2008 budget did not include any general fare increase, although the charge for VRE riders to use Amtrak trains was increased to reflect the cost charged to VRE for the service. In order to accommodate increases to fuel costs, access fees, equipment maintenance costs and contributions to the insurance trust fund, the local subsidy contribution for fiscal year 2008 was increased by \$4,576,394 to a total of \$13,379,155.

## **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 Director of Finance, Virginia Railway Express, 1500 King Street, Alexandria, Virginia 22314-2730 or by email to [dboxer@vrc.org](mailto:dboxer@vrc.org).

## **Basic Financial Statements**

**VIRGINIA RAILWAY EXPRESS**

**STATEMENTS OF NET ASSETS**

**June 30, 2007 and 2006**

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 5,191,501	\$ 6,974,333
Accounts receivable:		
Federal grants	6,307,671	2,639,847
Commonwealth of Virginia grants	2,304,450	1,094,012
Trade receivables, net of allowance for doubtful accounts	1,927,783	2,542,348
Other receivables	456,550	3,923,656
Inventory	1,976,039	2,361,863
Prepaid expenses	538,920	545,149
Restricted cash, cash equivalents and investments	29,803,736	60,047,130
<b>Total current assets</b>	<b>48,506,650</b>	<b>80,128,338</b>
<b>Noncurrent Assets:</b>		
Deferred bond and lease costs, net	821,103	936,764
<b>Capital assets:</b>		
Rolling stock	93,884,274	65,846,762
Vehicles	45,550	45,550
Facilities	58,716,180	58,494,479
Track and signal improvements	52,269,212	27,628,930
Equipment	6,329,601	5,608,372
Construction in progress	12,705,134	23,319,672
Equity in local properties	5,244,798	5,244,798
Office furniture and equipment	2,935,663	2,636,253
	232,130,412	188,824,816
Less accumulated depreciation	(63,118,461)	(53,342,775)
<b>Total capital assets, net</b>	<b>169,011,951</b>	<b>135,482,041</b>
<b>Total noncurrent assets</b>	<b>169,833,054</b>	<b>136,418,805</b>
<b>Total assets</b>	<b>\$ 218,339,704</b>	<b>\$ 216,547,143</b>

<b>LIABILITIES AND NET ASSETS</b>	<b>2007</b>	<b>2006</b>
<b>Current Liabilities:</b>		
Accounts payable	\$ 4,763,036	\$ 6,054,671
Payable to Commissions	694,523	882,278
Compensated absences	224,606	199,909
Accrued expenses	3,154,260	2,038,916
Accrued interest	1,765,133	1,899,386
Unearned revenue	13,840,874	20,464,351
Contract retainage	988,487	906,580
Note payable	60,000	60,000
Current portion of capital lease obligations	1,365,970	1,235,118
Current portion of long-term debt	5,520,000	5,255,000
<b>Total current liabilities</b>	<b>32,376,889</b>	<b>38,996,209</b>
<b>Noncurrent Liabilities:</b>		
Capital lease obligations	23,140,737	24,342,106
Note payable	545,000	600,000
Bonds payable, net	52,673,587	57,991,211
<b>Total noncurrent liabilities</b>	<b>76,359,324</b>	<b>82,933,317</b>
<b>Total liabilities</b>	<b>108,736,213</b>	<b>121,929,526</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	87,827,971	68,818,859
Restricted for liability insurance plan	6,524,971	10,204,517
Restricted for debt service and capital lease	7,213,804	7,008,351
Restricted grants or contributions	785,173	14,013
Unrestricted assets	7,251,572	8,571,877
<b>Total net assets</b>	<b>109,603,491</b>	<b>94,617,617</b>
<b>Total liabilities and net assets</b>	<b>\$ 218,339,704</b>	<b>\$ 216,547,143</b>

**VIRGINIA RAILWAY EXPRESS**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**Years Ended June 30, 2007 and 2006**

	2007	2006
Operating Revenues:		
Passenger revenue	\$ 19,685,561	\$ 19,453,436
Equipment rentals and other	206,558	442,517
<b>Total operating revenues</b>	<b>19,892,119</b>	<b>19,895,953</b>
Operating Expenses:		
Contract operations and maintenance	16,982,189	14,619,521
Other operations and maintenance	10,130,233	9,304,325
Property leases and access fees	8,636,947	8,986,974
Insurance	5,169,441	3,521,858
Marketing and sales	1,161,206	1,005,348
General and administrative	5,164,332	5,219,514
<b>Total operating expenses</b>	<b>47,244,348</b>	<b>42,657,540</b>
<b>Operating loss before depreciation</b>	<b>(27,352,229)</b>	<b>(22,761,587)</b>
Depreciation	(9,875,593)	(8,217,233)
<b>Operating loss</b>	<b>(37,227,822)</b>	<b>(30,978,820)</b>
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	12,269,884	13,137,477
Federal grants	12,741,069	10,721,335
Jurisdictional contributions	8,802,762	6,878,061
Capital grants and assistance:		
Commonwealth of Virginia grants	9,455,655	1,769,727
Federal grants	10,762,936	12,796,829
Interest income:		
Operating funds	850,490	367,292
Insurance trust	329,252	721,919
Other restricted funds	41,038	840,383
Interest, amortization and other nonoperating expenses, net	(2,748,084)	(4,953,443)
<b>Total nonoperating revenues, net</b>	<b>52,505,002</b>	<b>42,279,580</b>
Loss on disposal of assets	(291,306)	(1,366,531)
<b>Change in net assets</b>	<b>14,985,874</b>	<b>9,934,229</b>
Net Assets, beginning	94,617,617	84,683,388
Net Assets, ending	\$ 109,603,491	\$ 94,617,617



**VIRGINIA RAILWAY EXPRESS**

**STATEMENTS OF CASH FLOWS**

**Years Ended June 30, 2007 and 2006**

	2007	2006
<b>Cash Flows From Operating Activities:</b>		
Receipts from customers	\$ 20,236,255	\$ 19,727,708
Payments to suppliers	(45,928,100)	(39,361,587)
Payments to employees	(3,535,698)	(2,870,261)
<b>Net cash used in operating activities</b>	<b>(29,227,543)</b>	<b>(22,504,140)</b>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Governmental subsidies	30,018,286	30,448,991
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Acquisition and construction of capital assets	(41,152,853)	(15,169,261)
Capital grants and assistance	12,254,212	35,103,306
Collection on note receivable	3,840,000	-
Proceeds from sale of capital assets	80,000	-
Principal paid on capital lease obligations	(1,342,321)	(1,175,727)
Principal paid on note	(55,000)	(60,000)
Principal paid on bonds	(5,255,000)	(5,010,000)
Interest paid on capital lease obligation	(1,162,089)	(1,217,690)
Interest paid on bonds and note	(1,320,305)	(3,547,486)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(34,113,356)</b>	<b>8,923,142</b>
<b>Cash Flows From Investing Activities:</b>		
Interest received on investments	1,296,387	1,895,798
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(32,026,226)</b>	<b>18,763,791</b>
Cash and Cash Equivalents, beginning	67,021,463	48,257,672
Cash and Cash Equivalents, ending	\$ 34,995,237	\$ 67,021,463
<b>Operating loss</b>		
Operating loss	\$ (37,227,822)	\$ (30,978,820)
<b>Adjustments to reconcile operating loss to net cash used in operating activities:</b>		
Depreciation	9,875,593	8,217,233
(Increase) decrease in:		
Accounts receivable	166,066	(125,826)
Inventory	385,824	(451,157)
Prepaid expenses	6,229	73,109
Increase (decrease) in:		
Accounts payable and accrued expenses	(2,611,501)	803,740
Deferred ticket sales	178,068	(42,419)
<b>Net cash used in operating activities</b>	<b>\$ (29,227,543)</b>	<b>\$ (22,504,140)</b>
<b>Schedule of Noncash Capital Activities</b>		
Capital assets acquired through accounts payable	\$ 2,272,152	\$ 430,796
Capital assets acquired through capital lease	271,804	-

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies

#### Reporting Entity

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

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The system is not currently configured for fare revenues alone to produce positive net income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds and various lease financings, Federal and Commonwealth of Virginia grants and jurisdictional contributions based on a population/ridership formula that are supplemented by voluntary donations from contributing jurisdictions. Grants and contributions fund both operations and capital projects. Participating jurisdictions include the counties of Fairfax, Prince William, and Stafford; and the cities of Manassas, Manassas Park and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia.

#### Measurement Focus, Basis of Accounting

VRE prepares its financial statements using the accrual basis of accounting. The activities of VRE are similar to those of proprietary funds of local jurisdictions. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, VRE has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

**Revenue Recognition:** Intergovernmental revenues, consisting primarily of Federal and Commonwealth of Virginia grants, designated for payment of specific expenses, are recognized at the time that the expenses are incurred. Capital grants and assistance are recognized as additions are made to capital assets and other contributions are included in the Statements of Revenues, Expenses and Changes in Net Assets when expended. VRE records monetary and in-kind contributions as it assesses matching obligations to the jurisdictions or other construction partners. Any excess of grant revenues or expenses at year end are recorded as unearned revenue or accounts receivable, respectively.

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

**Restricted Cash and Cash Equivalents:** Restricted cash, cash equivalents and investments of \$29,803,736 and \$60,047,130 at June 30, 2007 and 2006, respectively, are comprised of funds related to bond compliance requirements, the Liability Insurance Plan and proceeds from the lease purchase of the Gallery IV-A railcars that had not been fully disbursed as of June 30, 2007. Also included in restricted cash are grant proceeds received in advance from the Commonwealth of Virginia 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 \$98,495 at June 30, 2007 and \$97,147 at June 30, 2006.

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

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

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

Costs of improvements to track and signal facilities owned by the railroads have been capitalized in recognition of the increased efficiency afforded VRE operations over their useful lives. The Commissions retain a residual interest in these assets such that net salvage value will be reimbursed by the railroads upon cessation of commuter rail service. Similarly, shared investments in jurisdictional facilities ("equity in local properties") recognize the right of access for commuter rail patrons granted to the Commissions.

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

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

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

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

When, in the opinion of management, certain assets are impaired, any estimated decline in value is accounted for as a non-operating expense. There were no impaired assets as of June 30, 2007.

**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 out for 25 percent of their sick leave credit in excess of 450 hours. Certain employees may accumulate compensatory leave for overtime worked. Compensated absences are accrued when incurred.

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

**Reclassification:** Certain prior year information is reclassified to conform to current year presentation.

**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.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Cash, Cash Equivalents and Investments

**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, 2007 the book balance of VRE's deposits with banks was \$410,814; these funds are swept into a U.S. Government Securities money market fund at the end of each business day.

**Investments:** State 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 LGIP.

The VRE Operations Board has adopted a formal investment policy. The policy specifies eligible and ineligible investments; diversification requirements; maximum length of time for various types of investments; and the process for purchasing securities.

VRE's investment policy establishes the maximum length until maturity and percentages of the portfolio permitted in each of the following instruments:

	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	40%
Repurchase agreements	24 months or less	20%
Bankers' acceptances	24 months or less	10%

**VIRGINIA RAILWAY EXPRESS**

**NOTES TO FINANCIAL STATEMENTS**

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

	Length of Maturity	Percent Allowed
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%
State Non-Arbitrage Pool	N/A	N/A
Negotiable CD's and negotiable bank deposit notes	24 months or less	25%

At June 30, 2007, VRE had investments of \$18,723,797 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, 2007, VRE had \$6,524,971 invested in the Insurance Trust.

Unexpended lease proceeds for the purchase of additional railcars in the recorded amount at June 30, 2007 of \$2,121,316 were invested in U.S. Treasury money market accounts with SunTrust Bank. Accumulated bond interest and principal payments in the amount of \$7,213,804 at June 30, 2007 were held by the bond trustee, U.S. Bank, in U.S. Treasury money market accounts. Investments in U. S. Treasury money market accounts at SunTrust Bank and U.S. Bank have been assigned an "AAAm" rating by Standard & Poor's.

As of June 30, 2007, the carrying values and maturity of VRE's investments were as follows:

Investment Type	Fair Value	Maturities Less than 1 Year
LGIP	\$ 18,723,797	\$ 18,723,797
Insurance trust fund – pooled funds	6,524,971	6,524,971
Money market funds – U. S. Treasuries	9,335,120	9,335,120
Total investments	<u>\$ 34,583,888</u>	<u>\$ 34,583,888</u>

**VIRGINIA RAILWAY EXPRESS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	(Deletions) Reclassifications	Ending Balance
Capital assets not being depreciated:				
Construction in progress	\$ 23,319,672	\$ 41,385,209	\$ (51,999,747)	\$ 12,705,134
Capital assets being depreciated:				
Rolling stock	65,846,762	999,365	27,038,147	93,884,274
Vehicles	45,550	-	-	45,550
Facilities	58,494,479	47,076	174,625	58,716,180
Track and signal improvements	27,628,930	1,214,568	23,425,714	52,269,212
Equipment	5,608,372	43,760	677,469	6,329,601
Equity in local properties	5,244,798	-	-	5,244,798
Office furniture and equipment	2,636,253	6,831	292,579	2,935,663
<b>Total capital assets being depreciated</b>	<b>165,505,144</b>	<b>2,311,600</b>	<b>51,608,534</b>	<b>219,425,278</b>
Less accumulated depreciation for:				
Rolling stock	29,275,351	5,722,731	(99,907)	34,898,175
Vehicles	18,241	9,110	-	27,351
Facilities	11,400,919	1,621,072	-	13,021,991
Track and signal improvements	5,910,251	1,331,637	-	7,241,888
Equipment	3,922,038	843,759	-	4,765,797
Equity in local properties	1,898,094	149,851	-	2,047,945
Office furniture and equipment	917,881	197,433	-	1,115,314
<b>Total accumulated depreciation</b>	<b>53,342,775</b>	<b>9,875,593</b>	<b>(99,907)</b>	<b>63,118,461</b>
<b>Total capital assets being depreciated, net</b>	<b>112,162,369</b>	<b>(7,563,993)</b>	<b>51,708,441</b>	<b>156,306,817</b>
<b>Totals</b>	<b>\$ 135,482,041</b>	<b>\$ 33,821,216</b>	<b>\$ (291,306)</b>	<b>\$ 169,011,951</b>



**VIRGINIA RAILWAY EXPRESS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Capital Assets (Continued)**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	(Deletions) Reclassifications	Ending Balance
Capital assets not being depreciated:				
Construction in progress	\$ 31,451,741	\$ 14,617,393	\$ (22,749,462)	\$ 23,319,672
Capital assets being depreciated:				
Rolling stock	61,953,818	318,033	3,574,911	65,846,762
Vehicles	45,550	-	-	45,550
Facilities	41,416,189	83,465	16,994,825	58,494,479
Track and signal improvements	27,628,930	-	-	27,628,930
Equipment	4,862,101	253,740	492,531	5,608,372
Equity in local properties	4,998,368	-	246,430	5,244,798
Office furniture and equipment	2,272,467	327,426	36,360	2,636,253
<b>Total capital assets being depreciated</b>	<b>143,177,423</b>	<b>982,664</b>	<b>21,345,057</b>	<b>165,505,144</b>
Less accumulated depreciation for:				
Rolling stock	24,378,877	4,896,474	-	29,275,351
Vehicles	6,864	11,377	-	18,241
Facilities	10,040,509	1,360,410	-	11,400,919
Track and signal improvements	4,989,296	920,955	-	5,910,251
Equipment	3,199,772	722,266	-	3,922,038
Equity in local properties	1,751,763	146,331	-	1,898,094
Office furniture and equipment	758,461	159,420	-	917,881
<b>Total accumulated depreciation</b>	<b>45,125,542</b>	<b>8,217,233</b>	<b>-</b>	<b>53,342,775</b>
<b>Total capital assets being depreciated, net</b>	<b>98,051,881</b>	<b>(7,234,569)</b>	<b>21,345,057</b>	<b>112,162,369</b>
<b>Totals</b>	<b>\$ 129,503,622</b>	<b>\$ 7,382,824</b>	<b>\$ (1,404,405)</b>	<b>\$ 135,482,041</b>

**Note 4. Related Parties Transactions**

VRE reimburses the Commissions for expenses made on behalf of VRE. During 2007 and 2006, these payments included \$3,371,124 and \$3,137,781 of salary-related costs and \$4,688 and \$7,011 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 \$88,000 and \$80,000 to NVTC and \$144,378 and \$145,107 to PRTC during 2007 and 2006, 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 \$5,940 and \$17,858 in 2007 and 2006, respectively. Amounts payable to NVTC and PRTC were \$15,705 and \$678,818 at June 30, 2007 and \$14,438 and \$867,840 at June 30 2006, respectively.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 5. Defined Benefit Pension Plan

#### A. Plan Description

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

All full-time, salaried permanent employees of VRE participate in the VRS through PRTC. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service or at age 50 with at least 30 years of service, if elected by the employer, payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. AFC is defined as the highest consecutive 36 months of reported compensation. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost of living increases limited to 5 percent per year beginning in their second year of retirement. VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/2006AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA, 23218-2500.

#### B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute five percent of their annual salary to the VRS. VRE has assumed this 5 percent member contribution. In addition, VRE is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees.

VRE's contribution rate for fiscal year 2007 was 10.54 percent of annual covered payroll, inclusive of the five percent member contribution. The contribution rate for fiscal years 2006 was 11.5 percent.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 5. Defined Benefit Pension Plan (Continued)

#### C. Annual Pension Cost

For fiscal year 2007, VRE's annual pension cost of \$267,896 was equal to VRE's required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (b) projected salary increases ranging from 3.75 percent to 6.2 percent per year, and (c) 2.5 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5 percent. The actuarial value of PRTC's assets is equal to the modified market value of the assets (VRE's assets are not separated from PRTC's). This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 21 years. VRE's annual pension cost of \$275,340 for fiscal year 2006 and \$244,529 for fiscal year 2005 was equal to VRE's actual and required contributions.

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

VRE's payroll for the employees covered by the VRS for the years ended June 30, 2007, 2006 and 2005 was \$2,541,703, \$2,394,250 and \$2,207,029, respectively.

### 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, 2007 and 2006, annual track usage fees totaled approximately \$5,310,710 and \$5,189,660 respectively, and facility and other identified costs totaled \$452,643 and \$422,322, respectively.

Under the Purchase of Services Agreement, Amtrak operates and maintains the VRE service and rolling stock, and permits the Commissions to use its terminal, station, and equipment maintenance facilities at Union Station, Washington, D.C. Actual costs of these services, which are based on annual budgets prepared in advance by Amtrak, amounted to \$18,586,378 in 2007 and \$16,459,485 in 2006. The current agreement will terminate on July 1, 2010.

VRE has entered into a series of operating leases with Sound Transit for bi-level rail cars and locomotives. At June 30, 2007, four rail cars had been returned to Sound Transit, leaving six rail cars and two locomotives still under lease; one of the locomotives was returned in mid-July 2007. The current monthly lease amount for the remaining cars is \$53,381. The remaining leases are subject to termination upon 120 days notice.

**VIRGINIA RAILWAY EXPRESS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 7. Long-Term Debt Obligations**

The following is a summary of long-term liability activity for the year ended June 30, 2007:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue Bonds	\$ 64,530,000	\$ -	\$ (5,255,000)	\$ 59,275,000	\$ 5,520,000
Capital Leases	25,577,224	271,804	(1,342,321)	24,506,707	1,365,970
Note Payable	660,000	-	(55,000)	605,000	60,000
	90,767,224	271,804	(6,652,321)	84,386,707	6,945,970
Accrued Annual Leave	199,909	24,697	-	224,606	224,606
	<u>\$ 90,967,133</u>	<u>\$ 296,501</u>	<u>\$ (6,652,321)</u>	<u>\$ 84,611,313</u>	<u>\$ 7,170,576</u>

Revenue Bonds:

\$37,625,000 Commuter Rail Revenue Refunding Bonds, series 1993; due in annual maturities of \$4,350,000 to \$5,065,000 through July 2010, plus semi-annual interest at 4.9% to 5.25%	\$ 18,800,000
\$23,000,000 Commuter Rail Revenue Bonds, series 1997; due in annual maturities of \$1,055,000 to \$2,115,000 through July 2017, plus semi-annual interest at 4.7% to 6.0%	15,690,000
\$31,700,000 Commuter Rail Revenue Refunding Bonds, series 1998; due in annual maturities of \$115,000 to \$6,555,000 through July 1, 2014, plus semi-annual interest at 4.3% to 5.375%	24,785,000
	<u>59,275,000</u>
Plus (less) unamortized:	
Deferred loss	(1,413,969)
Discount	(93,872)
Premiums	426,428
Total bonded debt, net	<u>\$ 58,193,587</u>

The 1993, 1997 and 1998 Series Bonds are payable from a pledge of revenues attributable to VRE, including government grants, local jurisdictional contributions and passenger revenue. A financial guaranty bond guarantees payments of each bond series. Mandatory debt service requirements consist of the following:

Years Ended June 30,	Principal	Interest	Total Required
2008	\$ 5,520,000	\$ 3,027,016	\$ 8,547,016
2009	5,795,000	2,731,522	8,526,522
2010	6,105,000	2,411,369	8,516,369
2011	6,435,000	2,073,792	8,508,792
2012	6,780,000	1,714,648	8,494,648
2013-2017	26,525,000	3,276,452	29,801,452
2018	2,115,000	57,105	2,172,105
	<u>\$ 59,275,000</u>	<u>\$ 15,291,904</u>	<u>\$ 74,566,904</u>

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Long-Term Debt Obligations (Continued)

Deferred bond and lease costs, consisting of issuance costs and insurance premiums are shown net of accumulated amortization. These costs are amortized on a straight-line basis over the life of the debt. Amortization of deferred bond and lease costs, approximating \$67,000 and \$60,000, is included in interest expense in 2007 and 2006, respectively.

The Indentures of Trust for the 1997 Commuter Rail Revenue Bonds required VRE to maintain a debt service reserve. During fiscal year 2000, VRE purchased a surety in substitution of the debt service reserve fund, releasing the proceeds from the reserve. The Indentures of Trust for the 1997 issue also require the maintenance of an operating reserve equivalent to one-third (33.3%) of annual budgeted operating expenses. As of June 30, 2007 and 2006, VRE designated \$26,148,232 and \$27,331,735 respectively, of its cash, the restricted bond interest and principal funds, inventory and receivables as this operating reserve. The reserves represented 62.05% and 73.32% of budgeted operating expenses for June 30, 2007 and 2006, 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, 2007 and 2006, are as follows:

	2007	2006
Bond Interest Fund	\$ 1,604,229	\$ 1,730,071
Bond Principal Fund	5,609,575	5,278,280
Total Held by Trustee	<u>\$ 7,213,804</u>	<u>\$ 7,008,351</u>

#### Capitalized Lease - Fare Collection

\$2,717,409 capitalized lease obligation; \$39,347 due monthly, interest at 5.73%, maturing in 2009, collateralized with a fare collection system with a carrying value of \$416,523

\$ 855,119

Future minimum lease payments as of June 30, 2007 are as follows:

Years Ended June 30,	Amount
2008	\$ 472,160
2009	432,813
Total minimum lease payments	904,973
Lease amount representing interest	49,854
Present value of lease payments	<u>\$ 855,119</u>

#### Capitalized Lease - Gallery IV

\$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 \$26,121,262

\$ 23,486,988

**VIRGINIA RAILWAY EXPRESS**

**NOTES TO FINANCIAL STATEMENTS**

**Note 7. Long-Term Debt Obligations (Continued)**

Future minimum lease payments as of June 30, 2007 are as follows:

Years Ended June 30,	Amount
2008	\$ 1,931,357
2009	1,931,357
2010	1,931,357
2011	1,931,357
2012	1,931,357
2013-2017	9,656,785
2018-2022	9,656,785
2023-2025	5,794,071
Total minimum lease payments	34,764,426
Lease amount representing interest	11,277,438
Present value of lease payments	<u>\$ 23,486,988</u>

**Capitalized Lease – Locomotive**

VRE entered into a series of leases with Titan Transit for locomotives. Each lease was for an initial two-year period with two one-year automatic extensions. Because a bonus purchase option was available at the conclusion of years two, three and four, the leases have been capitalized. As of June 30, 2007, only one of the leases was still in force; for two others, the bargain purchase option was exercised at the end of year two.

\$271,804 capitalized lease obligation; annual lease payment of \$76,651 due in monthly increments; interest calculated at 5%, maturing in 2010, collateralized with an F40 locomotive with a carrying value of \$271,804 \$ 164,600

Future minimum lease payments as of June 30, 2007 are as follows:

Years Ending June 30,	Amount
2008	\$ 76,651
2009	76,651
2010	25,555
Total minimum lease payments	178,857
Lease amount representing interest	14,257
Present value of lease payments	<u>\$ 164,600</u>

**Note Payable:**

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 carries a repayment schedule of 15 years, with the terms of the note subject to revision June 2007. The note was extended until November 2012 pending final signature for \$600,000 at 4.31%. The current note is secured by the office condominium. Principal of \$5,000 plus interest is payable monthly. The interest rate at June 30, 2007 was 4.09 percent.

Federal arbitrage regulations apply to VRE's revenue bonds and the Gallery IV capitalized lease.

## VIRGINIA RAILWAY EXPRESS

### NOTES TO FINANCIAL STATEMENTS

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#### 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 year ended June 30, 2007.

#### 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 \$332,357 at June 30, 2007 and \$141,416 at June 30, 2006.

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. Prior to that time, approximately one-half of plan assets were invested in the common pool, and the remainder was invested in a portfolio managed by external financial consultants. Activity in the Insurance Trust Fund for the years ended June 30, 2007 and 2006 was as follows:

	2007	2006
Beginning Balance, July 1	\$ 10,204,517	\$ 12,439,017
Contribution to reserves	1,000,000	500,000
Insurance premiums paid	(3,980,262)	(3,509,438)
Claims mitigation costs and losses incurred	(1,020,135)	(41,300)
Investment income	329,252	721,919
Actuarial and administrative charges	41,599	94,319
Transfer to VRE for small liability claims	(50,000)	-
Ending Balance, June 30	<u>\$ 6,524,971</u>	<u>\$ 10,204,517</u>

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

A claim for insurance reimbursement in the amount of \$520,959 was pending as of June 30, 2007 for damage to rolling stock as the result of a derailment in January 2005. A receivable and unearned revenue of \$270,959 were recorded at year-end representing the amount claimed in excess of the deductible for property damage.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 10. Contingencies and Contractual Commitments

At June 30, 2007, there were disputes between VRE and certain vendors. The amounts of any settlements, should they occur, are not determinable at this time. However, such amounts are not expected to be material in relation to the recorded amounts.

The Commissions have outstanding commitments for construction of facilities and equipment. A combination of Federal and Commonwealth of Virginia grants will be used to finance these capital projects. The following is a summary of the more significant contractual commitments, net of expenditures incurred as of June 30, 2007:

Stations and parking lots	\$ 1,236,438
Railcars	81,628,046
Maintenance and layover yards	6,311,178
Track and signal improvements	718,390
Other administrative	<u>243,744</u>
<b>TOTAL</b>	<b><u>\$ 90,137,796</u></b>

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

### Note 11. Pending GASB Statements

At June 30, 2007, 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. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and required supplemental information. Statement No. 45 will be effective for periods beginning after December 15, 2008.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes criteria that governments will use to ascertain whether the proceeds received collateralized by future collections of receivables or revenues should be reported as revenues or as a liability. This Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Statement No. 48 will be effective for periods beginning after December 15, 2007.



## VIRGINIA RAILWAY EXPRESS

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 11. Pending GASB Statements (Continued)**

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, identifies circumstances requiring a liability to be reported for pollution remediation. Statement No. 49 will be effective for periods beginning after December 15, 2007.

GASB Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*, more closely aligns financial reporting requirements for pensions with those for OPEB and enhances note disclosures or information presented as required supplementary information. Statement No. 50 will be effective for periods beginning after June 15, 2007.

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

#### **Note 12. Subsequent Event**

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 current 90% system ridership and 10% population formula. The amendment to the subsidy formula is being phased in over four years, beginning in fiscal year 2008.

**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
2006	\$3,904,965	\$4,113,551	\$208,586	94.93%	\$4,766,179	4.38%
2005	3,224,034	3,541,143	317,109	91.05%	4,425,778	7.17%
2004	2,704,610	2,944,583	239,973	91.85%	3,972,514	6.04%

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**Statistical Section**



# VIRGINIA RAILWAY EXPRESS

## STATISTICAL SECTION CONTENTS

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The statistical section of VRE's comprehensive annual financial report presents detailed information as a context for understanding what the information presented in the financial statements, note disclosures and required supplementary information say about VRE's overall financial health. This information has not been audited by the independent auditor.

Contents	Pages
<b>Financial Trends</b>	
These tables contain trend information to help the reader understand how VRE's financial performance and well being have changed over time.	39 - 40
<b>Debt Capacity</b>	
This table represents information to help the reader assess VRE's current level of debt outstanding.	41
<b>Revenue Capacity</b>	
This table contains information to help the reader assess VRE's jurisdiction revenue source.	42
<b>Operating Information</b>	
These tables contain service and infrastructure data to help the reader understand how the information in VRE's financial report relates to the services VRE provides and the activities it performs.	43 - 46

**Sources:** Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial report for the relevant year. VRE implemented GASB 34 in fiscal year 2002; tables presenting government-wide information include information beginning in that year.

**VIRGINIA RAILWAY EXPRESS**

**SCHEDULE OF NET ASSETS BY COMPONENT**

**Fiscal Years 2002 to 2007**

	2007	2006	2005	2004	2003	2002
Invested in Capital Assets, net of related debt	\$ 87,827,971	\$ 68,818,859	\$ 55,182,924	\$ 60,040,916	\$ 51,892,652	\$ 44,122,017
Restricted for Liability Insurance Plan	6,524,971	10,204,517	12,439,017	15,290,158	17,648,836	18,858,582
Restricted for Debt Service and Capital Lease	7,213,804	7,008,351	6,873,135	6,856,446	6,749,784	11,302,373
Restricted for Grants or Contributions	785,173	14,013	726,456	-	-	-
Unrestricted Assets	<u>7,251,572</u>	<u>8,571,877</u>	<u>9,461,856</u>	<u>1,568,228</u>	<u>3,718,577</u>	<u>316,384</u>
	<u>\$ 109,603,491</u>	<u>\$ 94,617,617</u>	<u>\$ 84,683,388</u>	<u>\$ 83,755,748</u>	<u>\$ 80,009,849</u>	<u>\$ 74,599,356</u>

**NOTE:** Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2007 are available.

**VIRGINIA RAILWAY EXPRESS**

**SCHEDULE OF CHANGE IN NET ASSETS  
Fiscal Years 2002 to 2007**

	2007	2006	2005	2004	2003	2002
<b>Operating Revenues:</b>						
Fare Revenue	\$ 19,685,561	\$ 19,453,436	\$ 19,452,162	\$ 16,929,629	\$ 15,048,262	\$ 12,753,214
Equipment Rental and Other	206,558	442,517	121,373	188,256	292,086	206,796
<b>Total operating revenues</b>	<u>19,892,119</u>	<u>19,895,953</u>	<u>19,573,535</u>	<u>17,117,885</u>	<u>15,340,348</u>	<u>12,960,010</u>
<b>Nonoperating Revenues:</b>						
Commonwealth of Virginia	12,269,884	13,137,477	7,613,022	7,453,276	5,002,085	5,366,332
Federal	12,741,069	10,721,335	8,124,763	6,226,445	7,168,236	5,143,950
Jurisdictional contribution	8,802,762	6,878,061	6,352,999	6,352,890	5,752,890	5,752,890
Capital Grants and Assistance:						
Commonwealth of Virginia	9,455,655	1,769,727	3,778,146	4,238,109	6,150,235	7,915,624
Federal	10,762,936	12,796,829	9,824,036	6,689,765	8,597,822	11,080,201
In-kind and other local contributions	-	-	266,148	3,143,319	457,149	699,375
Interest Income:						
Operating funds	850,490	367,292	214,888	44,390	87,809	236,488
Insurance	329,252	721,919	688,816	837,583	1,171,667	1,180,707
Other restrictive funds	41,038	840,383	49,860	-	-	-
<b>Total nonoperating revenues</b>	<u>55,233,086</u>	<u>47,233,023</u>	<u>36,912,678</u>	<u>34,985,777</u>	<u>34,387,893</u>	<u>37,375,567</u>
<b>Total revenues</b>	<u>75,145,205</u>	<u>67,128,976</u>	<u>56,486,213</u>	<u>52,103,662</u>	<u>49,728,241</u>	<u>50,335,577</u>
<b>Operating Expenses:</b>						
Contract Operations and Maintenance	16,982,189	14,619,521	14,144,414	14,212,476	13,095,504	12,612,253
Other Operations and Maintenance	10,130,233	9,304,325	7,928,107	5,466,313	4,741,041	4,308,986
Property Leases and Access Fees	8,636,947	8,986,974	8,769,866	8,163,632	7,307,905	6,308,712
Insurance	5,169,441	3,521,858	3,533,503	3,275,081	2,429,993	2,413,642
Marketing and Sales	1,161,206	1,005,348	1,302,527	1,279,549	1,482,131	1,549,752
General and Administrative	5,164,332	5,219,514	5,282,641	5,041,238	5,462,768	4,476,015
Depreciation	9,875,593	8,217,233	6,699,409	6,595,698	5,837,560	5,261,679
<b>Total operating expenses</b>	<u>57,119,941</u>	<u>50,874,773</u>	<u>47,660,467</u>	<u>44,033,987</u>	<u>40,356,902</u>	<u>36,931,039</u>
<b>Nonoperating Expenses:</b>						
Interest and Amortization	2,748,084	4,953,443	4,257,178	4,323,776	3,960,846	6,250,481
Loss on Disposal of Assets	291,306	1,366,531	3,640,928	-	-	-
<b>Total nonoperating expenses</b>	<u>3,039,390</u>	<u>6,319,974</u>	<u>7,898,106</u>	<u>4,323,776</u>	<u>3,960,846</u>	<u>6,250,481</u>
<b>Total expenses</b>	<u>60,159,331</u>	<u>57,194,747</u>	<u>55,558,573</u>	<u>48,357,763</u>	<u>44,317,748</u>	<u>43,181,520</u>
<b>Change in net assets</b>	<u>\$ 14,985,874</u>	<u>\$ 9,934,229</u>	<u>\$ 927,640</u>	<u>\$ 3,745,899</u>	<u>\$ 5,410,493</u>	<u>\$ 7,154,057</u>

Source: VRE's Audited Financial Statements.

**NOTE:** Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2007 are available.



VIRGINIA RAILWAY EXPRESS

SCHEDULE OF OUTSTANDING DEBT

Fiscal Years 2002 to 2007

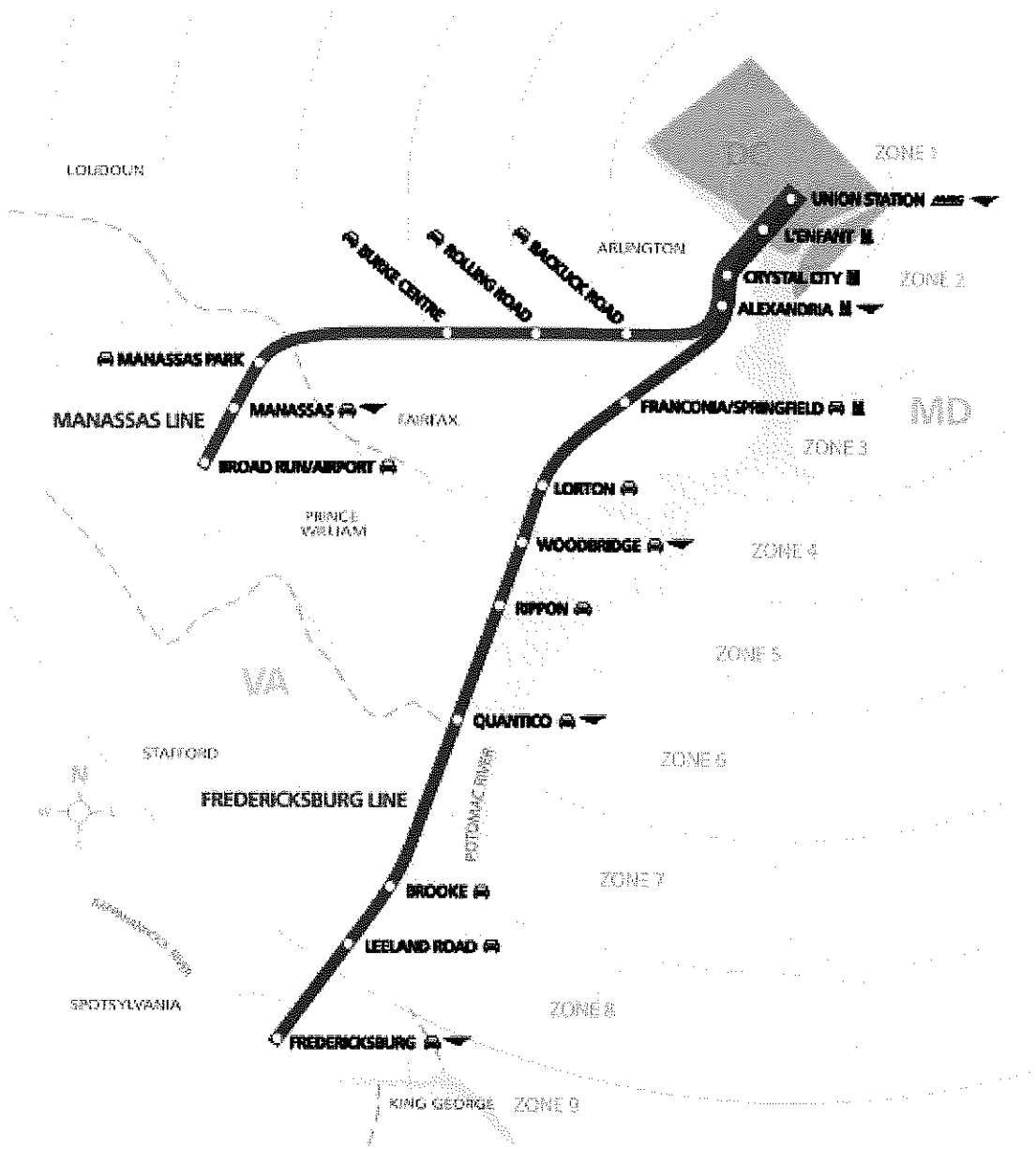
	2007	2006	2005	2004	2003	2002
Revenue Bonds:						
\$37,625,000 Commuter Rail Revenue Bond, Series 1993	\$ 18,800,000	\$ 22,945,000	\$ 26,895,000	\$ 30,660,000	\$ 34,250,000	\$ 35,005,000
\$23,000,000 Commuter Rail Revenue Bond, Series 1997	15,690,000	16,690,000	17,645,000	18,555,000	19,430,000	21,070,000
\$31,700,000 Commuter Rail Revenue Bond, Series 1998	24,785,000	24,895,000	25,000,000	25,100,000	25,195,000	31,305,000
Capital Leases:						
\$271,804 Capitalized Lease Obligation	164,600	-	-	-	-	-
\$2,717,409 Capitalized Lease Obligation	855,119	1,265,433	1,652,951	2,018,938	2,364,591	2,691,039
\$25,100,000 Capitalized Lease Obligation	23,486,988	24,311,791	25,100,000	-	-	-
\$2,400,000 Capitalized Lease Obligation	-	-	-	-	262,222	534,198
\$297,691 Capitalized Lease Obligation	-	-	-	-	55,882	108,624
\$746,282 Capitalized Lease Obligation	-	-	-	-	94,961	247,109
Note Payable:						
\$900,000 SunTrust Bank	605,000	660,000	720,000	780,000	840,000	900,000
	<u>\$ 84,386,707</u>	<u>\$ 90,767,224</u>	<u>\$ 97,012,951</u>	<u>\$ 77,113,938</u>	<u>\$ 82,492,656</u>	<u>\$ 91,860,970</u>

**VIRGINIA RAILWAY EXPRESS**

**SCHEDULE OF JURISDICTIONAL CONTRIBUTIONS**

**Fiscal Years 2002 to 2007**

	2007	2006	2005	2004	2003	2002
Fairfax County	\$ 3,935,736	\$ 3,159,643	\$ 2,963,820	\$ 2,972,946	\$ 2,607,621	\$ 2,510,184
City of Fredericksburg	111,115	73,827	57,544	68,276	79,191	109,519
City of Manassas	428,436	276,306	270,924	270,494	286,196	329,215
City of Manassas Park	183,686	179,422	149,758	129,178	127,728	135,725
Prince William County	2,961,241	2,236,676	2,061,006	1,956,546	1,878,919	1,846,733
Stafford County	917,147	699,424	609,222	726,297	554,900	613,575
City of Alexandria	107,752	102,621	97,734	93,080	88,648	84,427
City of Arlington	157,649	150,142	142,992	136,183	129,687	123,512
<b>Total Contributions</b>	<b>\$ 8,802,762</b>	<b>\$ 6,878,061</b>	<b>\$ 6,353,000</b>	<b>\$ 6,353,000</b>	<b>\$ 5,752,890</b>	<b>\$ 5,752,890</b>



**VIRGINIA RAILWAY EXPRESS**

**SCHEDULE OF MISCELLANEOUS STATISTICS**

**Fiscal Years 2002 to 2007**

	2007	2006	2005	2004	2003	2002
Rolling Stock (Owned or Leased):						
Locomotives	19	20	20	19	19	19
Railcars	90	90	90	90	86	86
<b>Total rolling stock</b>	<b>109</b>	<b>110</b>	<b>110</b>	<b>109</b>	<b>105</b>	<b>105</b>
Stations	18	18	18	18	18	18
Parking Spaces	7,284	7,273	7,273	7,009	6,354	5,980
Employees	36	36	34	32	28	28

Ridership and Fare Revenue Data:

Total Ridership	3,453,561	3,637,043	3,763,740	3,562,299	3,296,272	2,798,016
Average Daily Ridership	13,982	14,667	15,238	14,720	13,291	11,467
Average Fare per Trip	\$ 5.70	\$ 5.40	\$ 5.17	\$ 4.76	\$ 4.64	\$ 4.54

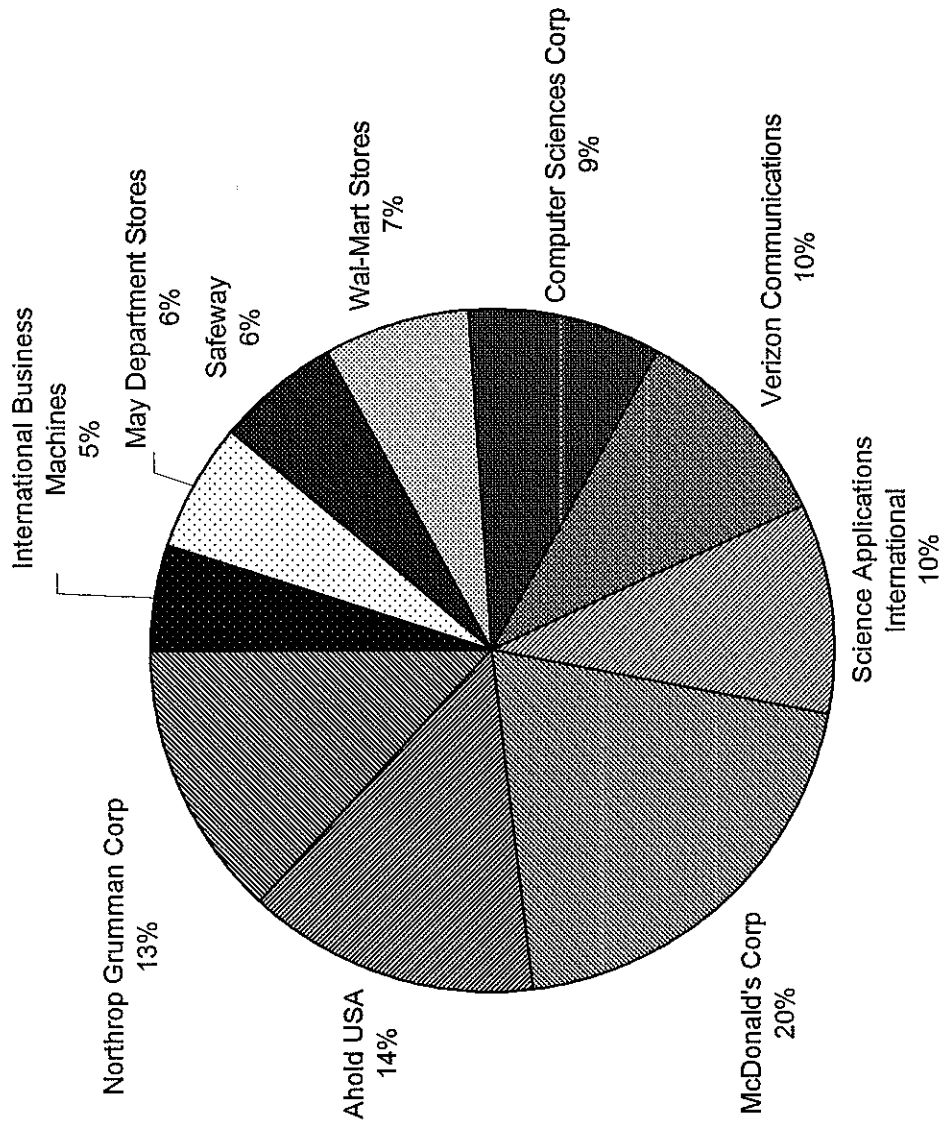
**VIRGINIA RAILWAY EXPRESS**

**PARKING SPACES**

**Fiscal Years 2002 to 2007**

<u>Location</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Backlick	220	220	220	220	220	220
Rolling Road	368	368	368	368	368	368
Burke Center	614	614	614	614	614	552
Manassas Park	600	600	600	600	600	300
Manassas	417	417	417	417	313	301
Broad Run	885	885	885	777	696	696
Lorton	567	567	567	567	567	567
Woodbridge	738	738	738	738	588	588
Rippon	676	676	676	676	356	356
Quantico	258	258	258	258	258	258
Brooke	431	420	420	420	420	420
Leeland Road	808	808	808	652	652	652
Fredericksburg	702	702	702	702	702	702
<b>Total Parking Spaces</b>	<b>7,284</b>	<b>7,273</b>	<b>7,273</b>	<b>7,009</b>	<b>6,354</b>	<b>5,980</b>

### Ten Major Private Employers in the Washington Region



Source: Washingtonpost.com - Post 200 Index of Top Private Employers in the

**THIS PAGE NOT USED**

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

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

We have audited the financial statements of Virginia Railway Express (VRE) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects VRE's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of VRE's financial statements that is more than inconsequential, will not be prevented or detected by VRE's internal control.

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

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



Compliance and Other Matters

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

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

PBGH, LLP

Harrisonburg, Virginia  
November 2, 2007