

Virginia Railway Express Comprehensive Annual Financial Report

FOR THE YEARS ENDED JUNE 30, 2008 and 2007



www.vre.org

Headquartered in Alexandria, Virginia

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, 2007

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



Charles S. Cox

President

Jeffrey R. Emmer

Executive Director

VIRGINIA RAILWAY EXPRESS

Comprehensive Annual Financial Report

YEARS ENDED JUNE 30, 2008 AND 2007



Prepared by:

Department of Finance

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Introductory Section





Virginia Railway Express

A Transportation Partnership

November 8, 2008

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 Virginia Railway Express' (VRE) comprehensive annual financial report for fiscal year ended June 30, 2008. 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 2008. The information provided in this report assists the VRE Operations Board, Commissions and other officials in making management decisions and provides all interested parties with comprehensive financial data in a format that will enable them to gain a true understanding of VRE's financial affairs.

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

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

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

The independent audit of the financial statements was part of a federally mandated Single Audit designed to meet the special needs of federal grantor agencies. These reports are available in the compliance section of this report.

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 2008, VRE operated 30 trains and served an average daily ridership of 14,662.

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.

Economic Conditions

Major Initiatives

During fiscal year 2008, VRE focused on improving systems that would ensure the future health of the rail line.

Thirty-five new bi-level Gallery railcars were delivered during the fiscal year and placed in service, as part of the purchase of 50 railcars that was approved in July 2006. The remaining 15 cars are scheduled to be received during the early part of fiscal year 2009. These cars will allow VRE to replace aging and leased equipment as well as increase capacity. Based on the availability of funding, the next steps in fleet improvement will be the purchase of 20 new locomotives, which will take place over a number of years.

Many of VRE's station parking lots were at or above capacity in 2008; to address this constraint, two major parking garage projects were substantially complete by the end of the year. A Fairfax County parking facility at Burke Centre opened in July 2008 and a parking deck in Manassas was opened in August 2008. For Fredericksburg line passengers, work began on the environmental analysis for parking expansion at both the Brooke and Leeland stations.

Long-Term Financial Planning

In order to help prioritize future needs and address potential future growth, a Long-Range Strategic Plan was completed in 2004. The plan identifies the projected ridership demand through 2025, and the capital and operating expenses necessary to meet the demand. It also examines potential network extensions, their impact on ridership, and the costs of such expansions. The Strategic Plan provides the technical underpinning for policy and planning decisions in the upcoming years. Funds have been set aside to prepare an update to the Strategic Plan. In addition, the annual budget includes both a multi-year capital program and a six-year forecast of revenue, expenses and funding sources.

Financial Environment

The current financial environment has resulted in a conundrum for VRE, as it has for many transit agencies. As the price of fuel has soared and environmental concerns have increased, commuters are drawn to transit alternatives; VRE experienced its highest average daily ridership to date in September 2008. At the same time that VRE itself is affected by the increased cost for fuel and other commodities, the precipitous decrease in real estate values in Northern Virginia has caused financial difficulty for the local governments that provide important subsidy funds for the VRE system. As a result, future VRE budgets will reflect a balance between meeting service needs, controlling subsidy levels and setting fares at a reasonable price.

The focus of the VRE Operations Board and VRE management continues to be the provision of safe, reliable commuter rail service to the citizens of Northern Virginia. With the Washington, DC metropolitan area designated as an ozone non-attainment area, public transit will play an increasingly vital role in addressing the area's need to improve air quality and reduce congestion. It is estimated that VRE takes the equivalent of one full lane of traffic off of both Interstate 95 and Interstate 66 each 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, 2007. This was the first year that VRE has received this prestigious award. 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 Operations Board and the Commissions for their continued support in planning and conducting the financial operations of VRE in a responsible, progressive fashion.

Respectfully submitted,

Dale Zehner
Chief Executive Officer

Donna Boxer, CPA
Chief Financial Officer

DIRECTORY OF PRINCIPAL OFFICIALS AND KEY PERSONNEL

Operations Board

Officers

Chairman	Hon. John Jenkins, Prince William County
Vice-Chairman	Hon. Sharon Bulova, Fairfax County
Treasurer	Hon. Christopher Zimmerman, Arlington County
Secretary	Hon. Paul Milde, Stafford County

Members

Hon. Maureen Caddigan, Prince William County
Hon. Wally Covington, Prince William County
Hon. Matthew Kelly, City of Fredericksburg
Hon. Patrick Herrity, Fairfax County
Hon. Frank Jones, City of Manassas Park
Hon. George Schwartz, Stafford County
Hon. Paul Smedberg, City of Alexandria
Kevin Page, VDRPT
Hon. Jonathan Way, City of Manassas

Alternates

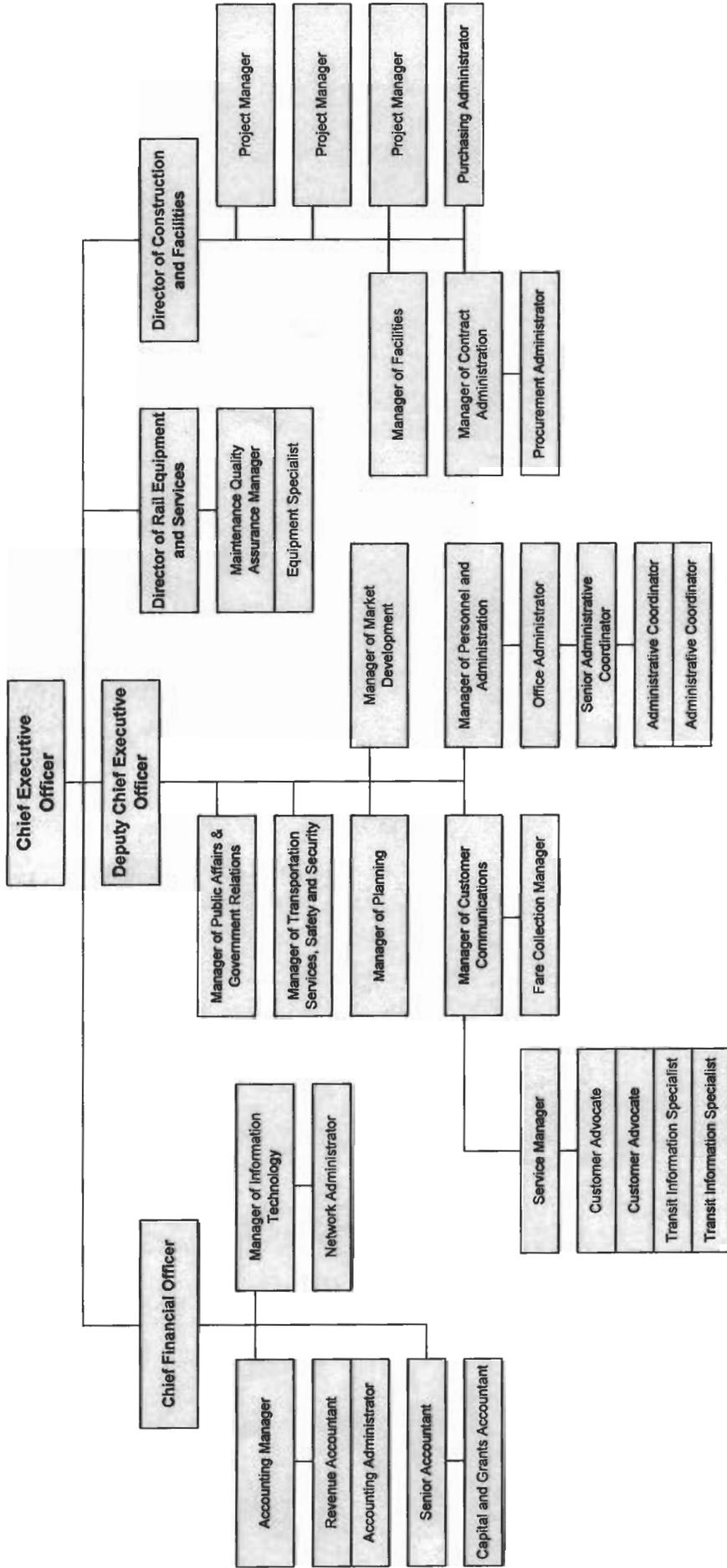
Hon. Marc Aveni, City of Manassas
Hon. Jay Fisette, Arlington County
Hon. Brad Ellis, City of Fredericksburg
Hon. Timothy Lovain, City of Alexandria
Hon. Jeff McKay, Fairfax County
Hon. Michael May, Prince William County
Hon. Martin Nohe, Prince William County
Hon. Brian Polk, Manassas Park
Hon. John Stirrup, Prince William County
Matthew Tucker, VDRPT

Management

Chief Executive Officer
Deputy Chief Executive Officer
Chief Financial Officer
Director, Construction and Facilities
Director, Rail Equipment and Services

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

Virginia Railway Express
Organizational Chart
June 2008



Financial Section



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, 2008 and 2007, 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, 2008 and 2007, 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 8, 2008 on our consideration of the Virginia Railway Express' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 8 through 16 and Schedule of Funding Progress on page 38 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise VRE's basic financial statements. The accompanying Schedule of Expenses of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 8, 2008



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, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-3 of this report and the financial statements which begin on page 17.

Financial Operations and Highlights

- Operating revenues increased by 9.7 percent compared to the prior year, from \$19,892,119 to \$21,821,334. Ridership increased by 5.1 percent from 3,453,561 annual trips to 3,628,563.
- Operating expenses, excluding depreciation, increased by 1.7 percent from \$47,244,348 to \$48,063,499.
- Non-operating revenue and capital grants increased by approximately 33 percent from \$55,253,086 to \$73,398,727. The biggest increases were in capital grants from the federal government and the Commonwealth of Virginia and jurisdictional contributions.
- The operating loss before depreciation was \$26,242,165, a decrease from the previous year of 4.1 percent. Local, federal and state support is accounted for as non-operating income and is used to offset these losses.
- VRE's total net assets increased by \$28,814,253, from \$109,603,491 to \$138,417,744. At the end of the fiscal year, unrestricted net assets were \$7,712,570.
- During the fiscal year, capital assets increased by 33.9 percent, primarily as the result of the purchase of 35 new Gallery railcars. In addition, 29 older railcars with a net book value of \$4,819,475 were sold during the year.

Overview of the Basic Financial Statements

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

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

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

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

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

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

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

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 21-37 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, 2008, 2007, and 2006 is shown below:

Condensed Statements of Net Assets

	2008	2007	2006
ASSETS:			
Current and other assets	\$ 39,350,039	\$ 49,327,753	\$ 81,065,102
Capital assets, net	226,293,095	169,011,951	135,482,041
Total assets	265,643,134	218,339,704	216,547,143
LIABILITIES:			
Current portion of long-term debt	7,721,012	6,945,970	6,550,118
Other current liabilities	23,576,220	25,222,035	32,446,091
Non-current liabilities	95,928,158	76,568,208	82,933,317
Total liabilities	127,225,390	108,736,213	121,929,526
NET ASSETS:			
Invested in capital assets, net of related debt	114,677,949	87,827,971	68,818,859
Restricted	16,027,225	14,523,948	17,226,881
Unrestricted	7,712,570	7,251,572	8,571,877
Total net assets	\$ 138,417,744	\$ 109,603,491	\$ 94,617,617

Current Year

Net assets increased by \$28.8 million, or 26.3 percent during the current fiscal year, due mainly to capital contributions that were used to fund rolling stock and facilities improvements.

The largest portion of VRE's net assets, \$114.7 million or 82.8 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, \$16 million or 11.6 percent represents resources that are restricted for the liability insurance plan and debt service, or are restricted grant funds less related liabilities.

Capital assets, net of depreciation, increased by \$57.3 million or 33.9 percent as the result of rolling stock additions.

Other current liabilities decreased by \$.87 million or 2.7 percent. The use of deferred grant revenue from the Commonwealth of Virginia for rolling stock additions was netted against an increase to accrued expenses to reflect five Gallery railcars placed in service at year end.

Noncurrent liabilities increased by \$19.4 million or 25.3 percent because of new debt incurred for the purchase of 35 Gallery railcars, less scheduled bond repayments during the year.

Restricted net assets increased by \$1.5 million or 10.3 percent.

Prior Year

Net assets increased by \$14.99 million, or 15.8 percent during the prior 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, 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, \$14.5 million or 13.3 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 \$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.

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.

	2008	2007	2006
Operating revenues:			
Fare revenue	\$ 21,688,092	\$ 19,685,561	\$ 19,453,436
Equipment rentals and other	133,242	206,558	442,517
Total operating revenues	21,821,334	19,892,119	19,895,953
Non-operating revenues and capital grants:			
Subsidies and grants:			
Commonwealth of Virginia	25,755,293	21,725,539	14,907,204
Federal	31,741,415	23,504,005	23,518,164
Jurisdictional contributions	13,379,155	8,802,762	6,878,061
In-kind and local contributions	925,338	-	-
Insurance proceeds	262,676	-	-
Interest income	1,334,850	1,220,780	1,929,594
Total non-operating revenues and capital grants	73,398,727	55,253,086	47,233,023
Total revenues	95,220,061	75,145,205	67,128,976
Operating expenses:			
Contract operations and maintenance	17,433,267	16,982,189	14,619,521
Other operations and maintenance	11,562,892	10,130,233	9,304,325
Property leases and access fees	8,279,505	8,636,947	8,986,974
Insurance	4,099,475	5,169,441	3,521,858
Marketing and sales	1,537,243	1,161,206	1,005,348
General and administrative	5,151,117	5,164,332	5,219,514
Total operating expenses	48,063,499	47,244,348	42,657,540
Other expenses:			
Depreciation	10,640,098	9,875,593	8,217,233
Interest, financing costs and other	4,525,279	2,748,084	4,953,443
Total other expenses	15,165,377	12,623,677	13,170,676
Total expenses	63,228,876	59,868,025	55,828,216
Revenues over expenses before special items	31,991,185	15,277,180	11,300,760
Special item - loss on disposal of assets	3,176,932	291,306	1,366,531
Change in net assets	28,814,253	14,985,874	9,934,229
Net assets - beginning of year	109,603,491	94,617,617	84,683,388
Net assets - end of year	\$ 138,417,744	\$ 109,603,491	\$ 94,617,617

Revenues

Current Year

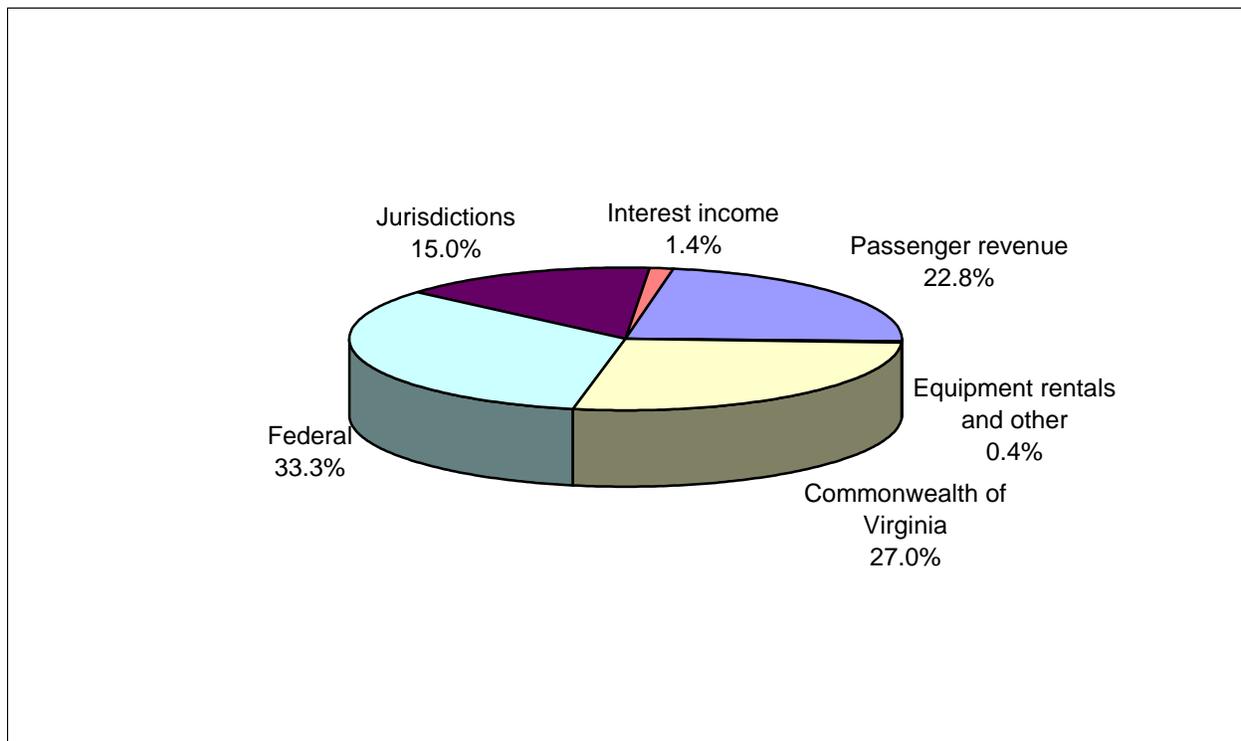
Total revenues for the current fiscal year increased by \$20.1 million or 26.7 percent. Operating revenues totaled \$21.8 million, an increase of 9.7 percent from the prior year.

Passenger revenue increased by \$2.0 million or 10.2 percent, the combined result of a 6 percent fare increase and an increase in ridership.

	June 30,		
	2008	2007	2006
Ridership	3,628,563	3,453,561	3,637,043
% Increase (Decrease)	5.1%	(5.0%)	(3.4%)

Subsidies and capital grants from the state and federal governments increased by \$12.3 million or 27.1 percent; the biggest increase was in capital grants from the federal government and the Commonwealth of Virginia for the purchase of additional railcars. Jurisdictional subsidies increased by \$4.6 million or 52 percent. In addition, VRE received \$.9 million for the local share of a parking deck.

The following chart shows the major sources of operating revenues for the year ended June 30, 2008:



Prior 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 2007 and 2006.

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.

Expenses

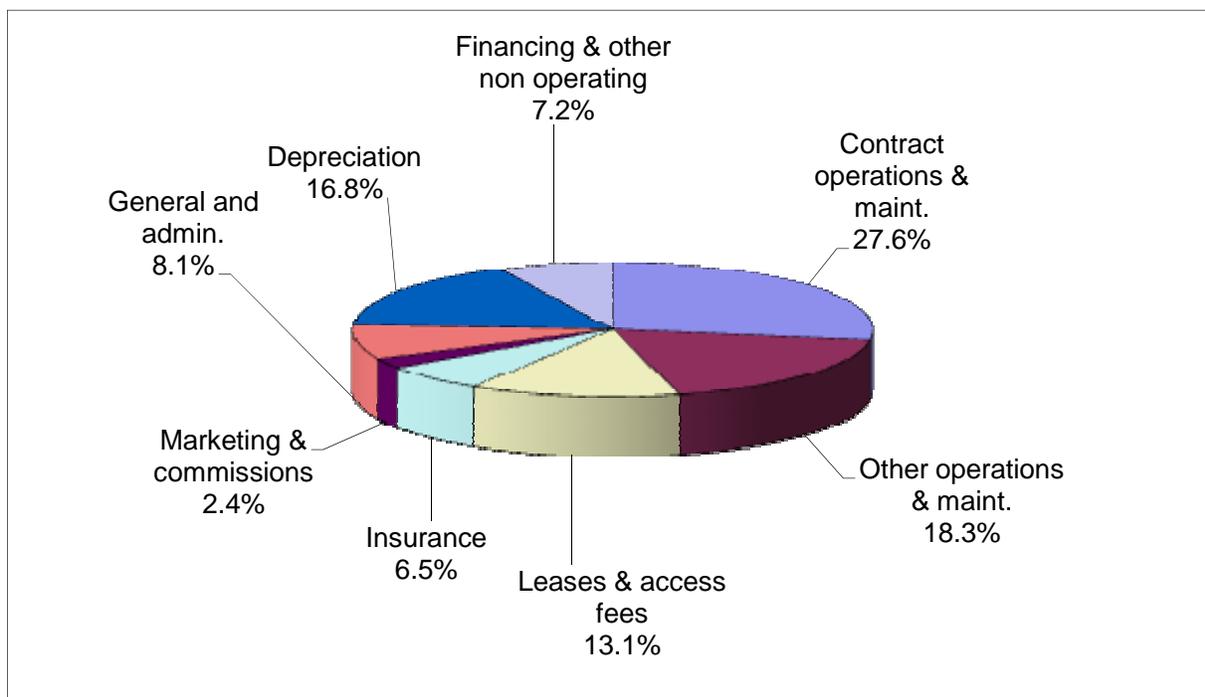
Current Year

Total operating and other expenses including depreciation, increased by \$3.4 million or 5.6 percent. Operating expenses increased by \$.82 million or 1.7 percent. Total operating expenses were \$48.1 million compared to \$47.2 million for the prior fiscal year.

The major cost increase was for diesel fuel, which exceeded the amount for the prior year by \$1.5 million or 48.3 percent. Insurance costs decreased by \$1.1 million or 20.7 percent because of a large multi-year claim that was paid in fiscal year 2007. Equipment lease costs decreased by \$.64 million or 61.2 percent as the result of the purchase of leased locomotives and the replacement of leased railcars with new Gallery cars.

The loss on sale of assets of \$3,176,932 was the result of the sale of 29 older railcars and related inventory.

The following chart shows the major operating expense categories for the year ended June 30, 2008:



Prior 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.

Capital Assets and Debt Administration

Capital Assets

VRE's investment in capital assets as of June 30, 2008 amounts to \$226.3 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 loans and grants from federal, Commonwealth of Virginia and local sources.

	2008	2007	2006
Rolling stock	\$ 148,011,293	\$ 93,884,274	\$ 65,846,762
Vehicles	45,550	45,550	45,550
Facilities	59,713,775	58,716,180	58,494,479
Track and signal improvements	52,269,212	52,269,212	27,628,930
Equipment	7,796,280	6,329,601	5,608,372
Construction in progress	19,461,401	12,705,134	23,319,672
Equity in local properties	5,244,798	5,244,798	5,244,798
Office furniture and equipment	3,256,370	2,935,663	2,636,253
	295,798,679	232,130,412	188,824,816
Less accumulated depreciation	(69,505,584)	(63,118,461)	(53,342,775)
Total capital assets, net	\$ 226,293,095	\$ 169,011,951	\$ 135,482,041

Current Year

During fiscal year 2008, net investment in capital assets increased by \$57.3 million or 33.9 percent. Completed projects totaling \$57.5 million were closed from construction in progress to their respective capital accounts and an additional \$8.6 million was charged directly to the capital accounts.

The major completed projects were: manufacture and purchase of 35 Gallery railcars (\$62.1 million); overhaul of locomotives (\$863,083); L'Enfant storage track (\$551,644); panel windscreens (\$92,940); security lighting (\$323,353); Variable Message Sign system (\$1.4 million); work management software (\$108,180); and Quantico Hot site (\$129,592). In addition, 29 older railcars with a net book value of \$4,819,475 were sold during the year, resulting in a loss on sale in the amount of \$3,013,963; the bonus purchase option on a leased locomotive was exercised; and six 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 were for acquisition of additional railcars, construction of parking facilities, and improvements to the stations and yards.

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 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 railcars (\$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 were for acquisition of additional railcars.

Debt Administration

At June 30, 2008, VRE had total debt outstanding of \$104,330,112. 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 capital leases for fare collection equipment and rolling stock are secured by the related equipment and the note payable for VRE's office condominium is secured by the real estate. In fiscal year 2008, NVTC, on behalf of VRE, entered into an agreement with the Federal Railroad Administration for a loan to purchase 50 Gallery railcars and the first four of a series of promissory notes were authorized during the fiscal year. These notes are secured by the revenues of VRE and the railcars.

	2008	2007	2006
Revenue bonds	\$ 53,755,000	\$ 59,275,000	\$ 64,530,000
Capital leases	23,044,557	24,506,707	25,577,224
Notes payable	27,530,555	605,000	660,000
Total	\$ 104,330,112	\$ 84,386,707	\$ 90,767,224

VRE has access to a line of credit of up to \$1 million with SunTrust Bank; the line was not utilized during 2008. For further information, please refer to Note 7 in the financial statements.

Economic Factors and Next Year's Budget

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

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 2009 was increased by \$3,896,346 to a total of \$17,275,500 and a general fare increase of 3 percent was implemented at the beginning of the year. In anticipation of state funding cuts for transportation in future years and a severe decline in local jurisdiction revenue, a second fare increase of 7% was approved for mid-year implementation.

Request for Information

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

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF NET ASSETS

June 30, 2008 and 2007

ASSETS	2008	2007
Current Assets:		
Cash and cash equivalents	\$ 4,843,010	\$ 5,191,501
Accounts receivable:		
Federal grants	6,855,962	6,307,671
Commonwealth of Virginia grants	2,482,423	2,304,450
Trade receivables, net of allowance for doubtful accounts	2,270,933	1,927,783
Other receivables	497,905	456,550
Inventory	3,668,032	1,976,039
Prepaid expenses and other	451,159	538,920
Restricted cash, cash equivalents and investments	17,072,495	29,803,736
Total current assets	38,141,919	48,506,650
Noncurrent Assets:		
Deferred bond and lease costs, net	1,208,120	821,103
Capital assets:		
Rolling stock	148,011,293	93,884,274
Vehicles	45,550	45,550
Facilities	59,713,775	58,716,180
Track and signal improvements	52,269,212	52,269,212
Equipment	7,796,280	6,329,601
Construction in progress	19,461,401	12,705,134
Equity in local properties	5,244,798	5,244,798
Office furniture and equipment	3,256,370	2,935,663
	295,798,679	232,130,412
Less accumulated depreciation	(69,505,584)	(63,118,461)
Total capital assets, net	226,293,095	169,011,951
Total noncurrent assets	227,501,215	169,833,054
Total assets	\$ 265,643,134	\$ 218,339,704

LIABILITIES AND NET ASSETS	2008	2007
Current Liabilities:		
Accounts payable	\$ 5,446,859	\$ 4,763,036
Accounts payable – rolling stock	8,164,645	-
Payable to Commissions	1,034,088	694,523
Compensated absences	15,802	15,722
Accrued expenses	4,655,339	3,154,260
Accrued interest	1,670,319	1,765,133
Unearned revenue	1,679,514	13,840,874
Contract retainage	909,654	988,487
Notes payable	602,178	60,000
Current portion of capital lease obligations	1,323,834	1,365,970
Current portion of long-term debt	5,795,000	5,520,000
Total current liabilities	31,297,232	32,168,005
Noncurrent Liabilities:		
Capital lease obligations	21,720,723	23,140,737
Notes payable	26,928,377	545,000
Bonds payable, net	47,080,963	52,673,587
Compensated absences	198,095	208,884
Total noncurrent liabilities	95,928,158	76,568,208
Total liabilities	127,225,390	108,736,213
Net Assets:		
Invested in capital assets, net of related debt	114,677,949	87,827,971
Restricted for liability insurance plan	7,470,123	6,524,971
Restricted for debt service and capital lease	7,287,789	7,213,804
Restricted grants or contributions	1,269,313	785,173
Unrestricted assets	7,712,570	7,251,572
Total net assets	138,417,744	109,603,491
Total liabilities and net assets	\$ 265,643,134	\$ 218,339,704

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenues:		
Passenger revenue	\$ 21,688,092	\$ 19,685,561
Equipment rentals and other	133,242	206,558
	<hr/>	<hr/>
Total operating revenues	21,821,334	19,892,119
Operating Expenses:		
Contract operations and maintenance	17,433,267	16,982,189
Other operations and maintenance	11,562,892	10,130,233
Property leases and access fees	8,279,505	8,636,947
Insurance	4,099,475	5,169,441
Marketing and sales	1,537,243	1,161,206
General and administrative	5,151,117	5,164,332
	<hr/>	<hr/>
Total operating expenses	48,063,499	47,244,348
Operating loss before depreciation	(26,242,165)	(27,352,229)
Depreciation	<hr/>	<hr/>
	(10,640,098)	(9,875,593)
Operating loss	(36,882,263)	(37,227,822)
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	10,795,443	12,269,884
Federal grants	12,522,868	12,741,069
Jurisdictional contributions	13,379,155	8,802,762
Interest income:		
Operating funds	399,553	850,490
Insurance trust	400,204	329,252
Other restricted funds	535,093	41,038
Insurance proceeds	262,676	-
Interest, amortization and other nonoperating expenses, net	<hr/>	<hr/>
Total nonoperating revenues, net	33,769,713	32,286,411
Capital grants and assistance:		
Commonwealth of Virginia grants	14,959,850	9,455,655
Federal grants	19,218,547	10,762,936
Other local contributions	925,338	-
Total capital grants and assistance	35,103,735	20,218,591
Loss on disposal of assets	<hr/>	<hr/>
	(3,176,932)	(291,306)
Change in net assets	28,814,253	14,985,874
Net Assets, beginning	<hr/>	<hr/>
	109,603,491	94,617,617
Net Assets, ending	<hr/>	<hr/>
	\$ 138,417,744	\$ 109,603,491

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF CASH FLOWS Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities:		
Receipts from customers	\$ 21,944,321	\$ 20,236,255
Payments to suppliers	(45,004,618)	(45,928,100)
Payments to employees	(3,308,598)	(3,535,698)
Net cash used in operating activities	(26,368,895)	(29,227,543)
Cash Flows From Noncapital Financing Activities:		
Governmental subsidies	35,932,131	30,018,286
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(36,753,440)	(41,152,853)
Capital grants and assistance	22,529,398	12,254,212
Collection on note receivable	-	3,840,000
Proceeds from sale of capital assets	1,714,512	80,000
Principal paid on capital lease obligations	(1,462,510)	(1,342,321)
Principal paid on note	(45,000)	(55,000)
Principal paid on bonds	(5,520,000)	(5,255,000)
Interest paid on capital lease obligation	(1,099,364)	(1,162,089)
Interest paid on bonds and note	(3,349,465)	(1,320,305)
Net cash used in capital and related financing activities	(23,985,869)	(34,113,356)
Cash Flows From Investing Activities:		
Interest received on investments	1,342,901	1,296,387
Decrease in cash and cash equivalents	(13,079,732)	(32,026,226)
Cash and Cash Equivalents, beginning	34,995,237	67,021,463
Cash and Cash Equivalents, ending	<u>\$ 21,915,505</u>	<u>\$ 34,995,237</u>
Operating loss		
Operating loss	\$ (36,882,263)	\$ (37,227,822)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	10,640,098	9,875,593
Loss on disposal of inventory	162,969	-
Proceeds from sale of inventory	122,500	-
(Increase) decrease in:		
Accounts receivable	105,349	166,066
Inventory	(1,977,462)	385,824
Prepaid expenses	87,760	6,229
Increase (decrease) in:		
Accounts payable and accrued expenses	1,354,516	(2,611,501)
Unearned revenue	17,638	178,068
Net cash used in operating activities	\$ (26,368,895)	\$ (29,227,543)
Schedule of Noncash Capital Activities		
Capital assets acquired through accounts payable	\$ 10,094,963	\$ 2,272,152
Capital assets acquired through notes payable	26,970,555	-
Capital assets acquired through accrued liabilities	1,112,933	-
Capital assets acquired through capital lease	-	271,804

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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 operating income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds, a federal loan, 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.

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. 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.

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.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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 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 \$17,072,495 and \$29,803,736 at June 30, 2008 and 2007, 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, 2008. 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 \$218,103 at June 30, 2008 and \$98,495 at June 30, 2007.

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.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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, 2008.

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

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

Reclassification: Certain prior year information on the Statement of Net Assets for the year ended June 30, 2007 have been reclassified to be consistent with the classifications adopted for the year ended June 30, 2008.

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

Note 2. Cash, Cash Equivalents and Investments

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

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

Credit risk: The investment policy specifies credit quality for certain types of investments, 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.

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.

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, 2008, the book balance of VRE's deposits with banks was \$978,166; these funds are swept into a U.S. Government Securities money market fund at the end of each business day.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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

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

	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%

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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

At June 30, 2008, VRE had investments of \$6,178,317 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, 2008, VRE had \$7,470,123 invested in the Insurance Trust.

Unexpended lease proceeds for the purchase of additional railcars in the recorded amount at June 30, 2008 of \$574 were invested in U.S. Treasury money market accounts with SunTrust Bank. Accumulated bond interest and principal payments in the amount of \$7,287,789 at June 30, 2008 were held by the bond trustee, U.S. Bank, in U.S. Treasury money market accounts. Investments in U. S. Treasury money market accounts at SunTrust Bank and U.S. Bank have been assigned a "AAAm" rating by Standard & Poor's.

As of June 30, 2008, the carrying values and maturity of VRE's investments were as follows:

Investment Type	Fair Value	Maturities Less than 1 Year
LGIP	\$ 6,178,317	\$ 6,178,317
Insurance trust fund – pooled funds	7,470,123	7,470,123
Money market funds – U. S. Treasuries	7,288,363	7,288,363
Total investments	<u>\$ 20,936,803</u>	<u>\$ 20,936,803</u>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	(Deletions) Reclassifications	Ending Balance
Capital assets not being depreciated:				
Construction in progress	\$ 12,705,134	\$ 64,255,726	\$ (57,499,459)	\$ 19,461,401
Capital assets being depreciated:				
Rolling stock	93,884,274	8,413,117	45,713,902	148,011,293
Vehicles	45,550	-	-	45,550
Facilities	58,716,180	29,657	967,938	59,713,775
Track and signal improvements	52,269,212	-	-	52,269,212
Equipment	6,329,601	43,913	1,422,766	7,796,280
Equity in local properties	5,244,798	-	-	5,244,798
Office furniture and equipment	2,935,663	42,129	278,578	3,256,370
Total capital assets being depreciated	219,425,278	8,528,816	48,383,184	276,337,278
Less accumulated depreciation for:				
Rolling stock	34,898,175	6,060,163	(4,252,975)	36,705,363
Vehicles	27,351	9,110	-	36,461
Facilities	13,021,991	1,654,752	-	14,676,743
Track and signal improvements	7,241,888	1,742,307	-	8,984,195
Equipment	4,765,797	766,242	-	5,532,039
Equity in local properties	2,047,945	149,851	-	2,197,796
Office furniture and equipment	1,115,314	257,673	-	1,372,987
Total accumulated depreciation	63,118,461	10,640,098	(4,252,975)	69,505,584
Total capital assets being depreciated, net	156,306,817	(2,111,282)	52,636,159	206,831,694
Totals	\$ 169,011,951	\$ 62,144,444	\$ (4,863,300)	\$ 226,293,095

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets (Continued)

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
Total capital assets being depreciated	165,505,144	2,311,600	51,608,534	219,425,278
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
Total accumulated depreciation	53,342,775	9,875,593	(99,907)	63,118,461
Total capital assets being depreciated, net	112,162,369	(7,563,993)	51,708,441	156,306,817
Totals	\$ 135,482,041	\$ 33,821,216	\$ (291,306)	\$ 169,011,951

Note 4. Related Party Transactions

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2008 and 2007, these payments included \$3,633,886 and \$3,371,124 of salary-related costs and \$5,100 and \$4,688 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 \$75,000 and \$88,000 to NVTC and \$100,354 and \$144,378 to PRTC during 2008 and 2007, 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 \$10,022 and \$5,940 in 2008 and 2007, respectively. Amounts payable to NVTC and PRTC were \$13,341 and \$1,020,747 at June 30, 2008 and \$15,705 and \$678,819, respectively, at June 30, 2007.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Defined Benefit Pension Plan

A. Plan Description

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

All full-time, salaried permanent 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 an annual cost-of-living adjustment (COLA) 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 included financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/pdf/publications/2007annurept.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 5 percent of their annual reported salary to the VRS. VRE has assumed this 5 percent member contribution. In addition, VRE is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees.

VRE's contribution rate for retirement for fiscal year 2008 was 10.54 percent of annual covered payroll, inclusive of the 5 percent member contribution, and 1 percent for group life insurance. The contribution rate for retirement for fiscal year 2007 was 10.54 percent and -0- percent for group life insurance.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost

For fiscal year 2008, VRE's annual pension cost of \$291,953 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 at June 30, 2007 included (a) 7.5 percent investment rate of return (b) projected salary increases ranging from 3.75 percent to 5.6 percent per year, and (c) a 2.50 percent per year cost-of-living adjustment. Both (a) and (b) included an inflation component of 2.50 percent. The actuarial value of the PRTC's assets exceeds 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 \$267,896 for fiscal year 2008 and \$275,340 for fiscal year 2007 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, 2008, 2007 and 2006 was \$2,769,945, \$2,541,703 and \$2,394,250, respectively.

D. Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 97.95% funded. The actuarial accrued liability for benefits was \$4,962,766 and the actuarial value of assets was \$4,861,087, resulting in an unfunded actuarial accrued liability (UAAL) of \$101,679. The covered payroll (annual payroll of active employees covered by the plan) was \$5,189,808 and ratio of the UAAL to the covered payroll was 1.9%.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 6. Operating Leases and Agreements

Operating Access Agreements with the CSX and Norfolk Southern railroads provide the Commissions the right to use tracks owned by the railroads in the provision of commuter rail passenger service. These agreements require the Commissions to pay the railroads a monthly base fee and to reimburse the railroads for any incremental cost incurred by the railroads as a result of providing tracks for commuter rail service. For the years ended June 30, 2008 and 2007, annual track usage fees totaled approximately \$5,513,000 and \$5,311,000, respectively, and facility and other identified costs totaled approximately \$455,000 and \$453,000, 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 approximately \$19,555,000 in 2008 and \$18,586,000 in 2007. The current agreement will terminate on July 1, 2010.

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, 2008:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue Bonds	\$ 59,275,000	\$ -	\$ (5,520,000)	\$ 53,755,000	\$ 5,795,000
Capital Leases	24,506,707	-	(1,462,150)	23,044,557	1,323,834
Notes Payable	605,000	26,970,555	(45,000)	27,530,555	602,178
	84,386,707	26,970,555	(7,027,150)	104,330,112	7,721,012
Accrued Annual Leave	224,606	205,175	(215,884)	213,897	15,802
	<u>\$ 84,611,313</u>	<u>\$ 27,175,730</u>	<u>\$ (7,243,034)</u>	<u>\$ 104,544,009</u>	<u>\$ 7,736,814</u>

Revenue Bonds:

\$37,625,000 Commuter Rail Revenue Refunding Bonds, series 1993; due in annual maturities of \$4,575,000 to \$5,065,000 through July 2010, plus semi-annual interest at 4.9% to 5.25%	\$ 14,450,000
\$23,000,000 Commuter Rail Revenue Bonds, series 1997; due in annual maturities of \$1,100,000 to \$2,115,000 through July 2017, plus semi-annual interest at 4.7% to 6.0%	14,635,000
\$31,700,000 Commuter Rail Revenue Refunding Bonds, series 1998; due in annual maturities of \$120,000 to \$6,555,000 through July 1, 2014, plus semi-annual interest at 4.3% to 5.375%	<u>24,670,000</u>
	53,755,000
Plus (less) unamortized:	
Deferred loss	(1,178,308)
Discount	(63,351)
Premiums	<u>362,622</u>
Total bonded debt, net	<u>\$ 52,875,963</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
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	7,155,000	1,341,583	8,496,583
2014-2018	21,485,000	1,991,974	23,476,974
	<u>\$ 53,755,000</u>	<u>\$ 12,264,888</u>	<u>\$ 66,019,888</u>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt Obligations (Continued)

Deferred bond, lease and note 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 costs, approximating \$71,500 and \$67,000, is included in interest expense in 2008 and 2007, respectively. Federal arbitrage regulations apply to VRE's revenue bonds and the Gallery IV capitalized lease.

The Indentures of Trust for the 1997 Commuter Rail Revenue Bonds required VRE to maintain a debt service reserve. During fiscal year 2000, VRE purchased a surety in substitution of the debt service reserve fund, releasing the proceeds from the reserve. The Indentures of Trust for the bonds also require the maintenance of an operating reserve equivalent to one-third (33.3%) of annual budgeted operating expenses. As of June 30, 2008 and 2007, VRE designated \$21,069,426 and \$18,934,963 respectively, of its cash, inventory and receivables as this operating reserve. The reserves represented 48.02% and 44.93% of budgeted operating expenses for June 30, 2008 and 2007, 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, 2008 and 2007, are as follows:

	2008	2007
Bond Interest Fund	\$ 5,835,328	\$ 1,604,229
Bond Principal Fund	1,452,461	5,609,575
Total held by Trustee	<u>\$ 7,287,789</u>	<u>\$ 7,213,804</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 \$85,028 \$ 420,665

Future minimum lease payments as of June 30, 2008 are as follows:

Years Ended June 30,	Amount
2009	\$ 432,813
Lease amount representing interest	<u>12,148</u>
Present value of lease payments	<u>\$ 420,665</u>

Capitalized Lease - Gallery IV (11 cars)

\$25,100,000 capitalized lease obligation; \$965,679 due semi-annually, interest at 4.59%, maturing in 2025, collateralized with Gallery IV railcars with a carrying value of \$25,537,014 \$ 22,623,892

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt Obligations (Continued)

Future minimum lease payments as of June 30, 2008 are as follows:

Years Ended June 30,	Amount
2009	\$ 1,931,357
2010	1,931,357
2011	1,931,357
2012	1,931,357
2013	1,931,357
2014-2018	9,656,785
2019-2023	9,656,785
2024-2025	3,862,714
Total minimum lease payments	32,833,069
Lease amount representing interest	10,209,177
Present value of lease payments	<u>\$ 22,623,892</u>

Notes Payable – Gallery IV (50 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. The first four of a series of promissory notes were authorized during the fiscal year; when all funds have been borrowed, the individual notes will be combined into a single note. The notes are secured by the revenues of VRE and the railcars.

\$8,553,421 Promissory Note #1; due in quarterly maturities of \$44,520 to \$56,965 through March 2033, plus quarterly interest at 4.74%	\$ 8,553,421
\$3,069,526 Promissory Note #2; due in quarterly maturities of \$15,977 to \$20,443 through March 2033; plus quarterly interest at 4.74%	3,069,526
\$7,673,804 Promissory Note #3; due in quarterly maturities of \$39,942 to \$51,107 through March 2033; plus quarterly interest at 4.74%	7,673,804
\$7,673,804 Promissory Note #4; due in quarterly maturities of \$40,883 to \$51,374 through March 2033, plus quarterly interest at 4.74%	7,673,804
	<u>7,673,804</u>
	<u>\$ 26,970,555</u>

Note 7. Long-Term Debt Obligations (Continued)

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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

Years Ended June 30,	Principal	Interest	Total Required
2009	\$ 541,178	\$ 1,267,857	\$ 1,809,035
2010	607,576	1,242,089	1,849,665
2011	636,891	1,212,774	1,849,665
2012	665,972	1,183,693	1,849,665
2013	701,387	1,148,278	1,849,665
2014-2018	4,039,322	5,209,004	9,248,326
2019-2023	5,112,470	4,135,856	9,248,326
2024-2028	6,470,126	2,778,200	9,248,326
2029-2033	8,195,633	1,052,693	9,248,326
	<u>\$ 26,970,555</u>	<u>\$ 19,230,444</u>	<u>\$ 46,200,999</u>

Note Payable – VRE Offices:

In June 2002, VRE entered into a borrowing with SunTrust Bank in the amount of \$900,000 to refinance a previous borrowing used to purchase the VRE offices. This note carried a repayment schedule of 15 years, with the terms of the note subject to revision June 2007. In November 2007 a new note was signed in the amount of \$600,000 at 4.31 percent interest with a 10 year amortization and a balloon payment after five years. Principal of \$5,000 plus interest is payable monthly. The note is secured by the office condominium. The balance outstanding was \$560,000 and \$605,000 for the years ended June 30, 2008 and 2007, respectively.

Note 8. Short-Term Debt

VRE uses a revolving line of credit to finance certain grant-funded capital projects prior to the receipt of reimbursements from the granting agencies. The revolving line of credit was not used during the years ended June 30, 2008 and 2007.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 9. Liability Insurance Plan

VRE is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters. The Virginia Department of Treasury, Division of Risk Management has established the terms of VRE's Commuter Rail Operations Liability Plan (the Insurance Plan). The Insurance Plan consists of a combination of self-insurance reserves and purchased insurance in amounts actuarially determined to meet the indemnification requirements of the Operating Access Agreements and the Purchase of Services Agreement and for liability and property damage. The Commissions indemnify each of the railroads in an amount up to \$250,000,000 for any claims against persons or property associated with commuter rail operations. Settled claims have not exceeded commercial coverage during any of the past three fiscal years. The liability for incurred but not reported claims was \$223,701 at June 30, 2008 and \$332,357 at June 30, 2007.

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2007, 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, 2008 and 2007 was as follows:

	2008	2007
Beginning balance, July 1	\$ 6,524,971	\$ 10,204,517
Contribution to reserves	4,950,000	1,000,000
Insurance premiums paid	(4,029,831)	(3,980,262)
Claims mitigation costs and losses incurred	(57,286)	(1,020,135)
Investment income	400,204	329,252
Actuarial and administrative charges	(67,935)	41,599
Transfer to VRE for small liability claims	-	(50,000)
Transfer to VRE for deductible	(250,000)	-
Ending balance, June 30	<u>\$ 7,470,123</u>	<u>\$ 6,524,971</u>

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

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 10. Contingencies and Contractual Commitments

At June 30, 2008, 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, 2008:

Stations and parking lots	\$ 4,756,184
Railcars	28,552,096
Maintenance and layover yards	1,806,473
Track and signal improvements	3,021,932
Other administrative	199,633
Total	\$ 38,336,318

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, 2008, 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, 2007.

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. 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.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Statement No. 53 will be effective for periods beginning after June 15, 2009.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 12. Subsequent Event

As of June 30, a total of \$26,970,555 had been borrowed from the Federal Railroad Administration for the purchase of railcars. Additional promissory notes in the amount of \$20,747,935 were signed through September 2008, bringing the total borrowed to \$47,718,490.

In August 2008, \$14,300,000 of the Series 1997, Commuter Rail Revenue non-callable bonds were defeased and notices of redemption were sent to the holders of the callable bonds. Refunding bonds were not issued. The bonds were repaid because of the sale of the underlying assets, 13 Kawasaki railcars. The outstanding balance of the series 1997 bonds was \$14,635,000 at June 30, 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
2007	\$ 4,861,087	\$ 4,962,766	\$ 101,679	97.95%	\$ 5,189,808	1.96%
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%

Statistical Section



VIRGINIA RAILWAY EXPRESS

**SCHEDULE OF CHANGE IN NET ASSETS
Last Seven Fiscal Years**

	2008	2007	2006	2005	2004	2003	2002
Operating Revenues:							
Passenger revenue	\$ 21,688,092	\$ 19,685,561	\$ 19,453,436	\$ 19,452,162	\$ 16,929,629	\$ 15,048,262	\$ 12,753,214
Equipment rentals and other	133,242	206,558	442,517	121,373	188,256	292,086	206,796
Total operating revenues	<u>21,821,334</u>	<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>
Nonoperating Revenues:							
Commonwealth of Virginia grants	10,795,443	12,269,884	13,137,477	7,613,022	7,453,276	5,002,085	5,366,332
Federal grants	12,522,868	12,741,069	10,721,335	8,124,763	6,226,445	7,168,236	5,143,950
Jurisdictional contribution	13,379,155	8,802,762	6,878,061	6,352,999	6,352,890	5,752,890	5,752,890
Capital Grants and Assistance:							
Commonwealth of Virginia grants	14,959,850	9,455,655	1,769,727	3,778,146	4,238,109	6,150,235	7,915,624
Federal grants	19,218,547	10,762,936	12,796,829	9,824,036	6,689,765	8,597,822	11,080,201
In-kind and other local contributions	925,338	-	-	266,148	3,143,319	457,149	699,375
Interest income:							
Operating funds	399,553	850,490	367,292	214,888	44,390	87,809	236,488
Insurance trust	400,204	329,252	721,919	688,816	837,583	1,171,667	1,180,707
Other restrictive funds	535,093	41,038	840,383	49,860	-	-	-
Insurance proceeds	262,676	-	-	-	-	-	-
Total nonoperating revenues	<u>73,398,727</u>	<u>55,253,086</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>
Total revenues	<u>95,220,061</u>	<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>
Operating Expenses:							
Contract operations and maintenance	17,433,267	16,982,189	14,619,521	14,144,414	14,212,476	13,095,504	12,612,253
Other operations and maintenance	11,562,892	10,130,233	9,304,325	7,928,107	5,466,313	4,741,041	4,308,986
Property leases and access fees	8,279,505	8,636,947	8,986,974	8,769,866	8,163,632	7,307,905	6,308,712
Insurance	4,099,475	5,169,441	3,521,858	3,533,503	3,275,081	2,429,993	2,413,642
Marketing and sales	1,537,243	1,161,206	1,005,348	1,302,527	1,279,549	1,482,131	1,549,752
General and administrative	5,151,117	5,164,332	5,219,514	5,282,641	5,041,238	5,462,768	4,476,015
Depreciation	10,640,098	9,875,593	8,217,233	6,699,409	6,595,698	5,837,560	5,261,679
Total operating expenses	<u>58,703,597</u>	<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>
Nonoperating Expenses:							
Interest and amortization	4,525,279	2,748,084	4,953,443	4,257,178	4,323,776	3,960,846	6,250,481
Gain on sale of assets	3,176,932	291,306	1,366,531	3,640,928	-	-	-
Total nonoperating expenses	<u>7,702,211</u>	<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>
Total expenses	<u>66,405,808</u>	<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>
Change in net assets	<u>\$ 28,814,253</u>	<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 2002-2008 are available.

VIRGINIA RAILWAY EXPRESS
SCHEDULE OF OUTSTANDING DEBT
Last Seven Fiscal Years

	2008	2007	2006	2005	2004	2003	2002
Revenue Bonds:							
\$37,625,000 Commuter Rail Revenue Bond, Series 1993	\$ 14,450,000	\$ 18,800,000	\$ 22,945,000	\$ 26,895,000	\$ 30,660,000	\$ 34,250,000	\$ 35,005,000
\$23,000,000 Commuter Rail Revenue Bond, Series 1997	14,635,000	15,690,000	16,690,000	17,645,000	18,555,000	19,430,000	21,070,000
\$31,700,000 Commuter Rail Revenue Bond, Series 1998	24,670,000	24,785,000	24,895,000	25,000,000	25,100,000	25,195,000	31,305,000
Capital Leases:							
\$271,804 Capitalized Lease Obligation	-	164,600	-	-	-	-	-
\$2,717,409 Capitalized Lease Obligation	420,665	855,119	1,265,433	1,652,951	2,018,938	2,364,591	2,691,039
\$25,100,000 Capitalized Lease Obligation	22,623,892	23,486,988	24,311,791	25,100,000	-	-	-
\$2,400,000 Capitalized Lease Obligation	-	-	-	-	-	262,222	534,198
\$297,691 Capitalized Lease Obligation	-	-	-	-	-	55,882	108,624
\$746,282 Capitalized Lease Obligation	-	-	-	-	-	94,961	247,109
Notes Payable:							
\$900,000 SunTrust Bank	560,000	605,000	660,000	720,000	780,000	840,000	900,000
\$26,970,555 FRA Notes(#1-#4)	26,970,555	-	-	-	-	-	-
Outstanding on June 30, 2008	\$ 104,330,112	\$ 84,386,707	\$ 90,767,224	\$ 97,012,951	\$ 77,113,938	\$ 82,492,656	\$ 91,860,970

Source: VRE's Audited Financial Statements.
NOTE: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2008 are available.

VIRGINIA RAILWAY EXPRESS

SCCHEDULE OF JURISDICTIONAL CONTRIBUTIONS
Last Seven Fiscal Years

	2008	2007	2006	2005	2004	2003	2002
Fairfax County	\$ 4,700,508	\$ 3,935,736	\$ 3,159,643	\$ 2,963,820	\$ 2,972,946	\$ 2,607,621	\$ 2,510,184
Fredericksburg	330,713	111,115	73,827	57,544	68,276	79,191	109,519
Manassas	655,077	428,436	276,306	270,924	270,494	286,196	329,215
Manassas Park	359,574	183,686	179,422	149,758	129,178	127,728	135,725
Prince William County	4,624,876	2,961,241	2,236,676	2,061,006	1,956,546	1,878,919	1,846,733
Stafford County	2,429,735	917,147	699,424	609,222	726,297	554,900	613,575
Alexandria	113,140	107,752	102,621	97,734	93,080	88,648	84,427
Arlington	165,532	157,649	150,142	142,992	136,183	129,687	123,512
Total contributions	\$ 13,379,155	\$ 8,802,762	\$ 6,878,061	\$ 6,353,000	\$ 6,353,000	\$ 5,752,890	\$ 5,752,890

Source: VRE's Audited Financial Statements.

VIRGINIA RAILWAY EXPRESS

**SCHEDULE OF MISCELLANEOUS STATISTICS
Last Seven Fiscal Years**

	2008	2007	2006	2005	2004	2003	2002
Rolling Stock (Owned or Leased)							
Locomotives	18	19	20	20	19	19	19
Railcars	89	90	90	90	90	86	86
Total rolling stock	107	109	110	110	109	105	105
Stations	18	18	18	18	18	18	18
Parking Spaces	7,227	7,284	7,273	7,273	7,009	6,354	5,980
Employees	37	36	36	34	32	28	28
Ridership and Fare Revenue Data:							
Total Ridership	3,628,563	3,453,561	3,637,043	3,763,740	3,562,299	3,296,272	2,798,016
Average Daily Ridership	14,662	13,982	14,667	15,238	14,720	13,291	11,467
Average Fare per Trip	\$ 5.98	\$ 5.70	\$ 5.40	\$ 5.17	\$ 4.76	\$ 4.64	\$ 4.54



VIRGINIA RAILWAY EXPRESS

PRINCIPAL EMPLOYERS OF PARTICIPATING JURISDICTIONS

Current Year and Nine Years Ago

Employers	2007			1998		
	Rank	Employees	Percentage of Total Jurisdictional Employment	Rank	Employees	Percentage of Total Jurisdictional Employment
Department of Defense (4)	1	47,700	N/A	1	N/A	N/A
Federal Government (1), (2), (3), (4)	2	33,190	N/A	2	21,900	N/A
Fairfax County Public Schools (1)	3	22,707	N/A	3	17,589	N/A
Fairfax County Government (1)	4	11,324	N/A	4	9,988	N/A
Prince William Public Schools (2)	5	9,443	N/A			
Arlington County Government and Schools (4)	6	7,014	N/A			
Booz Allen Hamilton (1) (4)	7	8,000-11,000	N/A			
Inova Health System (1)	8	7,000-10,000	N/A	5	9,000-10,000	N/A
Northrop Grumman (1)	8	7,000-10,000	N/A			
Science Applications International Corporation (1)	10	4,000-6,999	N/A	8	3,000-4,000	N/A
Federal Home Loan Mortgage (1)	10	4,000-6,999	N/A			
Lockheed Martin (1)	10	4,000-6,999	N/A			
Sprint (1)	10	4,000-6,999	N/A			
Bell Atlantic (5)				6	3,390	N/A
Geico Insurance (6)				7	3,100	N/A
Electronic Data Systems (1)				8	3,000-4,000	N/A
Prince William County Government (2)				10	2,536	N/A

Sources:

- (1), (2), (3), and (4) extracted and combined from the following sources:
- (1) Fairfax County fiscal year 2007 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 236
- (2) Prince William County fiscal year 2007 Comprehensive Annual Financial Report, Statistical Section, Table 18, page 170
- (3) City of Alexandria fiscal year 2007 Comprehensive Annual Financial Report, Statistical Section, Table XIX, page 129
- (4) Arlington County fiscal year 2007 Comprehensive Annual Financial Report, Statistical Section, Table L, page 180

(1) and (4) extracted and combined from the following sources:

- (1) Fairfax County fiscal year 2007 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 236
- (4) Arlington County fiscal year 2007 Comprehensive Annual Financial Report, Statistical Section, Table L, page 180

(5) Arlington County Department of Economic Development

(6) Stafford County fiscal year 2007 Comprehensive Annual Financial Report, Statistical Section, Table S-16

VIRGINIA RAILWAY EXPRESS

**DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS
Fiscal Years 1998 to 2008**

	Fairfax County (1)	Prince William County (2)	City of Manassas (3)	City of Manassas Park (4)	Stafford County (5)	City of Fredericksburg (6)	City of Alexandria (7)	Arlington County (8)
2008 (all categories)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2007								
Population	N/A	381,221	38,066	13,910	123,200	21,273	139,000	204,800
Personal income (in thousands)	N/A	N/A	N/A	\$419,253	\$4,382,347	\$710,837	\$9,507,531	N/A
Per capita personal income	N/A	N/A	N/A	\$30,140	\$35,571	\$33,415	N/A	\$63,500
Unemployment rate	N/A	2.6%	2.7%	2.4%	2.7%	4.4%	2.2%	2.3%
2006								
Population	1,037,311	371,178	38,066	13,100	120,170	20,732	138,000	200,226
Personal income (in thousands)	\$65,951,196	\$15,813,242	N/A	\$380,385	\$4,150,171	\$662,387	\$ 8,835,057	N/A
Per capita personal income	\$63,579	\$37,966	N/A	\$29,037	\$34,535	\$31,950	N/A	\$60,595
Unemployment rate	2.2%	2.3%	2.9%	2.3%	2.4%	4.2%	N/A	2.3%
2005								
Population	1,033,646	354,383	37,000	12,900	117,874	20,458	135,000	198,267
Personal income (in thousands)	\$62,317,484	\$14,618,081	N/A	\$361,406	\$3,952,197	\$623,826	\$7,776,966	N/A
Per capita personal income	\$60,289	\$36,693	N/A	\$28,016	\$33,529	\$30,493	\$61,147	\$59,010
Unemployment rate	2.5%	2.6%	2.8%	2.1%	2.4%	5.0%	N/A	2.5%
2004								
Population	1,022,298	336,820	36,500	12,700	114,513	20,189	134,000	198,739
Personal income (in thousands)	\$58,443,754	\$13,437,793	N/A	\$343,776	\$3,625,940	\$607,669	\$7,435,257	N/A
Per capita personal income	\$57,169	\$34,877	N/A	\$27,069	\$31,664	\$30,099	\$58,365	\$57,851
Unemployment rate	2.7%	2.6%	3.1%	2.0%	2.5%	6.0%	N/A	2.6%
2003								
Population	1,012,090	321,570	363,000	12,300	109,341	20,076	135,000	196,925
Personal income (in thousands)	\$54,633,630	\$12,176,485	\$843,820	\$321,694	\$3,315,547	\$602,180	\$7,165,859	N/A
Per capita personal income	\$53,981	\$32,882	\$23,246	\$26,154	\$30,323	\$29,995	\$53,711	\$56,400
Unemployment rate	3.1%	3.6%	3.5%	1.8%	2.9%	5.8%	N/A	2.3%
2002								
Population	1,004,435	309,351	35,900	11,900	104,232	19,800	129,938	193,754
Personal income (in thousands)	\$52,638,421	\$11,492,607	\$805,706	\$305,128	\$3,107,052	\$561,508	\$7,009,871	N/A
Per capita personal income	\$52,406	\$32,071	\$22,443	\$25,641	\$29,809	\$28,359	\$52,344	\$55,148
Unemployment rate	3.4%	3.3%	4.3%	2.7%	2.9%	4.0%	N/A	2.7%
2001								
Population	984,366	294,798	35,500	11,200	98,376	19,279	130,403	189,983
Personal income (in thousands)	\$51,063,002	\$10,983,002	\$793,056	\$321,966	\$2,935,933	\$538,752	\$6,931,579	N/A
Per capita personal income	\$51,874	\$31,895	\$22,340	\$28,747	\$29,844	\$27,945	\$52,125	\$53,830
Unemployment rate	2.5%	2.4%	3.1%	1.0%	2.2%	3.7%	N/A	2.1%

Compliance Section



VIRGINIA RAILWAY EXPRESS

**SCHEDULE OF EXPENSES OF FEDERAL AWARDS
Year Ended June 30, 2008**

Federal Grantor/ Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF HOMELAND SECURITY		
<u>Direct payments:</u>		
Urban Areas Security Initiative	97.075	\$ 959,088
Total Department of Homeland Security		\$ 959,088

See Note to Schedule of Expenses of Federal Awards.

VIRGINIA RAILWAY EXPRESS

NOTE TO SCHEDULE OF EXPENSES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

The accompanying Schedule of Expenses of Federal Awards includes the federal grant activity of VRE and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133 define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance.

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the Schedule of Expenses of Federal Awards.

Major Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the criteria to be used in defining major programs. Major programs for VRE were determined using a risk-based approach in accordance with OMB Circular A-133.

Catalog of Federal Domestic Assistance – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.

**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, 2008, and have issued our report thereon dated November 8, 2008. 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 8, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Virginia Railway Express (VRE), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, that are applicable to its major Federal program for the year ended June 30, 2008. VRE's major Federal program is identified in the Summary of Independent Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of VRE's management. Our responsibility is to express an opinion on VRE's compliance based on our audit.

We conducted our audit of compliance 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, specifications, and circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about VRE's compliance with those requirements, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on VRE's compliance with those requirements.

In our opinion, VRE complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of VRE is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered VRE's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of VRE's internal control over compliance.

A control deficiency in VRE's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects VRE's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by VRE's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

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

PBGH, LLP

Harrisonburg, Virginia
November 8, 2008

VIRGINIA RAILWAY EXPRESS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008**

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified	_____ Yes	✓_____ No	
Significant deficiencies identified that are not considered to be material weaknesses	_____ Yes	✓_____ None Reported	
Noncompliance material to financial statements noted	_____ Yes	✓_____ No	

Federal awards

Internal control over major programs:

Material weaknesses identified	_____ Yes	✓_____ No	
Significant deficiencies identified that are not considered to be material weaknesses	_____ Yes	✓_____ None Reported	

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____ Yes	✓_____ No	
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Identification of major program:

CFDA Number	Name of Federal Program
97.075	Urban Areas Security Initiative

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?	_____ Yes	✓_____ No	
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VIRGINIA RAILWAY EXPRESS

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008**

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Significant Deficiencies in Internal Control

None Reported

B. Compliance Findings

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None