VIRGINIA RAILWAY EXPRESS

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

VIRGINIA RAILWAY EXPRESS

Financial Statements for the Years Ended June 30, 2004 and June 30, 2003

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Virginia Railway Express
A Transportation Partnership

October 15, 2004

Commissioners
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

I am pleased to present the Virginia Railway Express' (VRE) audited financial statements for Fiscal Year 2004, ending June 30, 2004. 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 2004. 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.

This report is presented in four sections. The introductory section includes this transmittal letter and a list of the VRE Operations Board members and key VRE staff. The financial section includes the independent auditors' report, an analysis of the financial operations of VRE during the year, the financial statements, and the footnotes to the financial statements. The statistical section contains tables of revenues and expenses for the past ten years and other useful information intended to provide a more complete picture of VRE. The compliance section contains the independent auditors' report on compliance and internal controls in accordance with *Government Auditing Standards*.

Fiscal Year 2004 Operations

During Fiscal Year 2004, VRE continued its incredible growth, while still providing dependable commuter rail service. Our average daily ridership was 14,491, which was an 7.1 percent increase over the previous year. The on-time performance system wide was 86.8 percent, with 82.2 percent on the Fredericksburg Line and 91.3 percent on the Manassas Line.

Despite these positive statistics, we are seeing the effects of the rapid increase in ridership on our operations. Our growth is slowing as we approach system capacity; this year's growth rate is 3.3 percent less than last year, and 6.5 percent less than the year before. The crowding is not only affecting growth, but our customer satisfaction as well. Approval ratings are still high - 70 percent overall satisfaction rate – but they are dropping below previous levels. In order to address potential future growth, we completed a Long-Range Strategic Plan this year. The plan identifies the projected ridership demand through 2025, and the capital and operating expenses necessary to meet the demand. It also examined potential network extensions, their impacts on ridership, and the costs of such expansions. The Strategic Plan will provide technical support to make important policy decisions in the upcoming years.

Equipment

With increasing ridership has come the challenge of providing sufficient seats and station parking for our customers. Many of our peak period trains are at or above capacity today. In Fiscal Year 2004, VRE procured 35 used bi-level Gallery cars to replace the 38 single-level Mafersas. Once all these cars have been placed in service by fall of 2004, we will have added 800 more seats for a total of 8,990 seats, capacity for a total of 17,980 round trips, if off-peak trains are included. The Strategic Plan, however, projects average daily ridership demand to be up to 16,200 in Fiscal Year 2005, and continue to increase to 20,000 by Fiscal Year 2010. VRE is procuring 11 new bi-level cab cars to go into service by Fiscal Year 2006 with an option to purchase 50 more bi-level cars to address short-term demand. In addition to railcars, VRE is undergoing a program to overhaul the locomotive head-end power units as well as the major overhaul of several locomotives. These overhauls are a short-term fix to help improve the reliability of VRE’s trains. As a longer-term measure, we are exploring the possibility of purchasing new Tier II locomotives so that we will be able to operate longer train consists and reduce locomotive emissions.

Parking

Nine of our 13 parking lots were at or above capacity in 2004. As a result, we have undertaken several projects to alleviate the parking constraint on our system. A leased lot was opened at Rippon in February 2004, and the ribbon was cut on a new surface lot at Woodbridge in the summer of 2004. This year projects were also initiated at Burke Centre and Manassas to construct parking decks to accommodate increasing demand. At the same time, VRE worked with Fairfax County to initiate the EZ Bus, a subscription bus service designed to alleviate parking pressure on the Burke Centre parking lot. The program was successful, with approximately 50 people using the service every day. However, even with these steps, system-wide parking demand still exceeds supply, and we are exploring additional options for improving parking and access to our stations.

Critical Needs

Despite all the improvements VRE has made over the last year, we are still stretched to the limits of our capacity. In order to meet even the minimum estimates of demand, the Strategic Plan calls for a capital investment of approximately \$39.6 to \$51.7 million annually through 2010, up from the current capital program of \$25 million per year. Even at this level of investment VRE will struggle to meet the demand for commuter rail service in the I-66 and I-95/395 corridors.

As part of the recommended capital investment, the Strategic Plan calls for 80 to 110 additional bi-level coaches by 2025 in order to run longer consists and additional trains. New, cleaner, high powered locomotives, additional mid-day storage, and maintenance facilities at the outlying yards will also be necessary before any of this increased service can occur. In addition, the Strategic Plan calls for 7,000 to 9,000 additional parking spaces system-wide by 2010, which is 500 to 2,500 more spaces than we have today.

The focus of the VRE Operations Board and management continues to be providing safe, reliable commuter rail service to the citizens of Northern Virginia. With the Washington, DC metropolitan area designated as an ozone non-attainment area, public transit will play an increasingly vital role in addressing the area's need to improve air quality and reduce congestion. VRE currently takes the equivalent of one full lane of traffic off of both Interstate 95 and Interstate 66 each rush hour. Without continued capital investment, VRE will not be able to continue to offer the high-quality, cost effective service that we have provided for the past 12 years.

Respectfully submitted,

Dale Zehner
Chief Executive Officer

Virginia Railway Express

Directory of Principal Officials and Key Personnel

Operations Board

Officers

Chairman	Hon. John Jenkins, Prince William County
Vice-Chairman	Hon. Elaine McConnell, Fairfax County
Secretary	Hon. John Grzejka, City of Manassas
Treasurer	Hon. Dana Kauffman, Fairfax County

Members

Hon. Robert Gibbons, Stafford County
Hon. Sharon Bulova, Fairfax County
Karen Rae, DRPT

Alternates

Hon. Maureen Caddigan, Prince William County
Hon. Hilda Barg, Prince William County
Hon. Christopher Zimmerman, Arlington County
Hon. William Greenup, City of Fredericksburg
Hon. Wally Covington, Prince William County

Management

Chief Executive Officer	Dale Zehner
Deputy Chief Executive Officer	Vacant
Director of Finance	John H. Tuohy, CPA
Director of Capital Programs	Jennifer Straub
Superintendent of Railroad Services, Safety, and Security	David A. Snyder
Manager of Operations Support	Dennis Larson
Manager of Public Affairs and Government Relations	Mark Roeber
Manager of Customer Service	Wendy Lemieux
Manager of Market Development	Ann King
Manager of Personnel and Administration	Anna Gotthardt
Manager of Information Technology	Don Chism
Manager of Structural and Civil Engineering	Sirel Mouchantaf

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

We have audited the accompanying basic 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, 2004. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and *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 financial position of the Virginia Railway Express as of June 30, 2004 and the changes in financial position and cash flows for the year 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 August 13, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 8 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

PBGH, LLP

Harrisonburg, Virginia
August 13, 2004, except for Note 11 as to which the date is October 1, 2004.

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, 2004. Following this MD&A are the basic financial statements of the VRE, together with the notes that are essential to understanding the data contained in the financial statements.

Railway Activities and Highlights

For Fiscal Year (FY) 2004, ridership significantly exceeded FY 2003. This is a continuation of a trend of strong year-to-year increases. The table below illustrates VRE's growth:

	2004	2003
Ridership	3,515,660	3,283,079
% Increase	7.1%	16.5%

In addition to continued population growth in the areas served by VRE, the ridership increases may be attributed to the purchase of additional bi-level cars, the addition of parking and traffic congestion on Interstates 95 and 66, two major interstate arterial roadways.

Financial Operations and Highlights

The VRE was able to achieve positive financial results for the fiscal year, as follows:

- Operating revenues increased by 11.6 percent from $15,340,348 to $17,117,885 largely due to an 7.1 percent increase in ridership and a 4 percent fare increase.
- Operating expenses, excluding depreciation, increased by 8.5 percent from $34,519,342 to $37,438,289. The major elements of this change are as follows:
    - There are contractually set escalators in the contract with Amtrak, the contract operator, and the track access fees paid to CSX Transportation and Norfolk Southern. These escalators account for approximately half of the increase. Access fees for Washington Union Terminal increased beginning February 2004. This resulted in an increase above last year in access fees to the terminal of 27.5 percent for FY 2004.
    - Insurance expense increased by 34.8 percent. This is the first significant increase in several years.
    - The overall increase in operating expenses was partially offset by decreases in marketing expense (down 13.7 percent) and general and administrative expenses (down 7.7 percent).

The net result of the above was an operating loss, before depreciation, of $20,320,404. This represents an increase from the previous year of 6.0 percent. Depreciation increased from $5,837,560 in FY 2003 to $6,595,698 in FY 2004. The operating loss before non-operating revenues and expenses increased from a loss of $25,016,554 to a loss of $26,916,102. Local, federal and state support is accounted for as non-operating income.

Non-operating revenue increased slightly from $30,427,047 to $30,662,001. This was due principally to a decline in capital grants as capital expenditures were lower in FY 2004 than in FY 2003 and a decrease in Federal operating grants due to a change in the computation of the Federal formula. These declines were offset by the purchase of the Chicago METRA rail cars for the bargain price of $1 per car that resulted in in-kind revenue of $3,088,319 due to the difference between the value of the cars and the price paid, a decline in bond interest, financing and other costs of $235,340, and an increase in grants from the Commonwealth of $539,065. There was a decline in interest income of $377,503 due to both a decline in interest rates and invested balances during the year.

Summary of Operations

The change in net assets for FY 2004 was $3,745,899, as compared to $5,410,493 for FY 2003.

		2004		2003
Operating revenues	$	17,117,885	$	15,340,348
Operating expenses		37,438,289		34,519,342
Loss before depreciation and non operating income		(20,320,404)		(19,178,994)
Depreciation		(6,595,698)		(5,837,560)
Loss before non operating revenue		(26,916,102)		(25,016,554)
Non operating revenue, net		30,662,001		30,427,047
Change in net assets	$	3,745,899	$	5,410,493

Financial Position Summary

A condensed summary of VRE's net assets at June 30, 2004, as compared to June 30, 2003 is shown as follows:

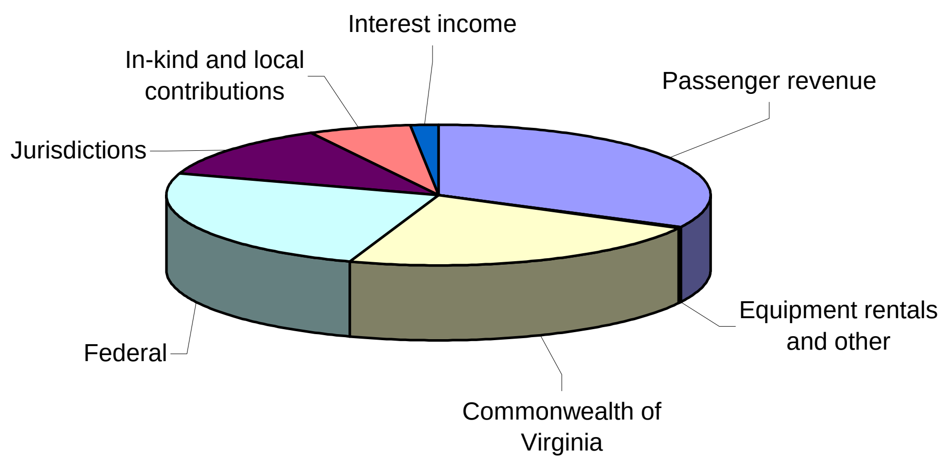
		2004		2003
ASSETS:				
Current and other assets	$	33,003,867	$	35,656,830
Capital assets		135,342,388		133,494,391
Total assets		168,346,255		169,151,221
LIABILITIES:				
Current portion of long term debt		5,200,987		5,378,718
Other current liabilities		9,165,110		8,519,825
Non-current liabilities		70,224,410		75,242,829
Total liabilities		84,590,507		89,141,372
NET ASSETS:				
Invested in capital assets, net of related debt		59,916,991		51,892,652
Restricted		22,270,529		24,398,620
Unrestricted		1,568,228		3,718,577
TOTAL NET ASSETS	$	83,755,748	$	80,009,849

Net assets may serve over time as a useful indicator of VRE's financial position. The largest portion of VRE's net assets each year 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 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.

The portion of VRE's net assets representing insurance trust funds is subject to restrictions on how they can be used.

Revenues

The following chart shows the major sources and the percentage of revenues for the year ended June 30, 2004:

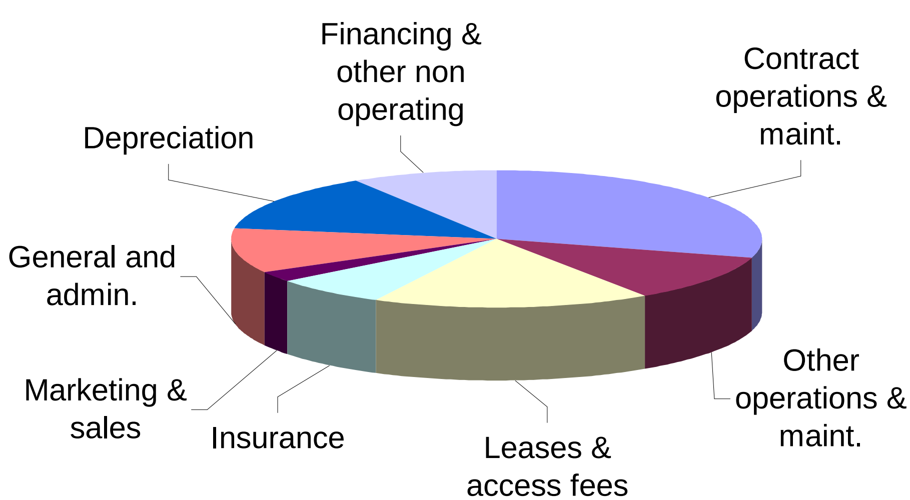


A summary of revenues for the year ended June 30, 2004, and the amount and percentage change in relation to prior year amounts is as follows:

	2004 Amount	Percent of total	Increase (decrease) from 2003	Percent increase (decrease)
Operating revenues:				
Passenger revenue	$ 16,929,629	32.49%	$ 1,881,367	12.50%
Equipment rentals and other	188,256	0.36%	(103,830)	(35.55%)
Total operating revenues	17,117,885	32.85%	1,777,537	11.59%
Non operating revenues:				
Subsidies and grants:				
Commonwealth of Virginia	11,691,385	22.44%	539,065	4.83%
Federal	12,916,210	24.79%	(2,849,848)	(18.08%)
Jurisdictional contributions	6,352,890	12.20%	600,000	10.43%
In-kind and other local contributions	3,143,319	6.03%	2,686,170	587.59%
Interest income	881,973	1.69%	(377,503)	(29.97%)
Total non operating revenues	34,985,777	67.15%	597,884	1.74%
Total revenues	$ 52,103,662	100.00%	$ 2,375,421	4.78%

Expenses

The following chart shows the major cost centers and percentage of expenses for the year ended June 30, 2004:



A summary of expenses for the year ended June 30, 2004, and the amount and percentage of change in relation to prior year amounts is as follows:

	2004 amount	Percent of total	Increase (decrease) from 2003	Percent increase (decrease)
Operating expenses:				
Contract operations and maintenance	$ 14,212,476	29.39%	$ 1,116,972	8.53%
Other operations and maintenance	5,466,313	11.31%	725,272	15.30%
Property leases and access fees	8,163,632	16.88%	855,727	11.71%
Insurance	3,275,081	6.77%	845,088	34.78%
Marketing and sales	1,279,549	2.65%	(202,582)	(13.67%)
General and administrative	5,041,238	10.42%	(421,530)	(7.72%)
Total operating expenses	37,438,289	77.42%	2,918,947	8.46%
Other expenses:				
Depreciation	6,595,698	13.64%	758,138	12.99%
Interest, financing costs and other	4,323,776	8.94%	362,930	9.16%
Total other expenses	10,919,474	22.58%	1,121,068	11.44%
Total expenses	$ 48,357,763	100.00%	$ 4,040,015	9.12%

Financial Statements

The VRE's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The VRE is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets with a cost of over $5,000 are capitalized and, except for land, are depreciated over their estimated useful lives. Certain cash and investment funds are restricted for debt service, capital expenditures or insurance purposes. See note 1 of the financial statements for a summary of the VRE's significant accounting policies.

Capital Acquisitions and Construction Activities

During FY 2004 the VRE expended $8,443,695 for capital activities. Completed projects totaling $7,866,532 were closed from construction in progress to their respective capital accounts. The major completed projects were:

Project		Amount
	$	
Facilities		1,214,959
Rolling stock		6,542,958
Office facilities and equipment		108,615
	$	7,866,532

Property and equipment are capitalized at cost of acquisition. Acquisitions are funded using a variety of financing techniques, including Federal grants with matching funds from the Commonwealth and from local subsidies. Additional information on the VRE's capital assets and commitments can be found in notes 3, 10, and 11 to the financial statements.

Debt Administration

At June 30, 2004 the VRE had total debt outstanding of $77,113,938. The debt for the VRE is issued under the name of the Northern Virginia Transportation Commission (NVTC). VRE revenues back the bonds and the VRE is responsible for making debt service payments. A financial guaranty bond guarantees payment of each bond series. The note payable is secured by the VRE's office condominium.

		2004		2003
Revenue Bonds	$	74,315,000	$	78,875,000
Capital leases		2,018,938		2,777,656
Note Payable		780,000		840,000
Total	$	77,113,938	$	82,492,656

VRE's total debt decreased $5,378,718 during the fiscal year. VRE has access to a line of credit of up to $1 million with SunTrust Bank. The line was exercised during the year, however there was no outstanding balance as of June 30. For further information, please refer to note 8 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 fuel demand for VRE service. The constraining factors to VRE growth are station parking and availability of seats. VRE will be placing into service 20 bi-level cars obtained from Chicago METRA to replace all single level cars. These are expected to add approximately 800 additional seats over the next year. VRE has entered into an agreement to sell the single level Mafersa cars to the State of Connecticut. For additional information, see Note 11 in the Financial Statements.

The budget for FY 2005 assumed that the constraints facing VRE will limit ridership growth to 6 percent. The revenue generated by this growth is insufficient to fund the increases expected in expenses and the continued capital investments needed. Therefore, a fare restructuring went into effect on July 1, 2004 that is expected to increase fare revenues by 6 percent.

Request for Information

This financial report is designed to provide a general overview of the VRE's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, Virginia Railway Express, 1500 King Street, Alexandria, Virginia 22314-2730.

Respectfully submitted,

Dale Zehner
Chief Executive Officer

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

ASSETS

	2004	2003
Current Assets:		
Cash and cash equivalents	$ 1,448,522	$ 958,471
Accounts receivable:		
Federal grants	2,493,825	2,591,196
Commonwealth of Virginia grants	1,152,681	2,464,733
Trade receivables, net of allowance for doubtful accounts	2,282,732	1,828,729
Inventory	1,682,415	1,698,686
Prepaid expenses	767,675	705,346
Total current assets	9,827,850	10,247,161
Other Assets:		
Restricted cash, cash equivalents, and investments	22,270,530	24,398,620
Deferred bond costs, net	905,487	1,011,049
	23,176,017	25,409,669
Capital assets:		
Rolling stock	82,669,253	73,305,328
Vehicles	22,882	-
Facilities	37,208,822	36,002,866
Track and signal improvements	27,628,930	27,628,930
Equipment	4,676,483	4,658,485
Construction in progress	21,221,222	23,701,581
Equity in local properties	4,998,368	4,998,368
Office furniture and equipment	2,262,817	1,949,524
	180,688,777	172,245,082
Less accumulated depreciation	(45,346,389)	(38,750,691)
Total capital assets, net	135,342,388	133,494,391
Total assets	$ 168,346,255	$ 169,151,221

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND NET ASSETS

	2004	2003
Current Liabilities:		
Accounts payable	$ 3,051,626	$ 2,942,511
Payable to Commissions	519,637	607,083
Compensated absences	174,551	149,478
Accrued expenses	2,799,796	2,104,101
Accrued interest	1,952,919	2,063,209
Deferred ticket sales revenue	648,112	531,410
Contract retainage	18,469	122,033
Current portion of capital lease obligations	365,987	758,718
Current portion of long-term debt	4,835,000	4,620,000
Total current liabilities	14,366,097	13,898,543
Non-current Liabilities		
Arbitrage rebate payable	-	19,808
Capital lease obligations	1,652,951	2,018,938
Note payable	720,000	780,000
Bonds payable	67,851,459	72,424,083
Total non-current liabilities	70,224,410	75,242,829
Total liabilities	84,590,507	89,141,372
Net Assets:		
Invested in capital assets, net of related debt	59,916,991	51,892,652
Restricted for liability insurance plan	15,290,158	17,648,836
Restricted unspent debt proceeds	6,980,371	6,749,784
Unrestricted assets	1,568,228	3,718,577
Total net assets	83,755,748	80,009,849
Total liabilities and net assets	$ 168,346,255	$ 169,151,221

The accompanying notes are an integral part of the financial statements.

VIRGINIA RAILWAY EXPRESS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended June 30, 2004 and 2003

	2004	2003
Operating revenues:		
Passenger revenue	$ 16,929,629	$ 15,048,262
Equipment rentals and other	188,256	292,086
Total operating revenues	17,117,885	15,340,348
Operating expenses:		
Contract operations and maintenance	14,212,476	13,095,504
Other operations and maintenance	5,466,313	4,741,041
Property leases and access fees	8,163,632	7,307,905
Insurance	3,275,081	2,429,993
Marketing and sales	1,279,549	1,482,131
General and administrative	5,041,238	5,462,768
Total operating expenses	37,438,289	34,519,342
Operating loss before depreciation	(20,320,404)	(19,178,994)
Depreciation	(6,595,698)	(5,837,560)
Operating loss	(26,916,102)	(25,016,554)
Non operating revenues (expenses):		
Subsidies:		
Commonwealth of Virginia grants	7,453,276	5,002,085
Federal grants	6,226,445	7,168,236
Jurisdictional operating contributions	6,352,890	5,752,890
Capital grants and assistance:		
Commonwealth of Virginia grants	4,238,109	6,150,235
Federal grants	6,689,765	8,597,822
In-kind and other local contributions	3,143,319	457,149
Interest income:		
Operating funds	44,390	87,809
Insurance trust	837,583	1,171,667
Interest, amortization and other non operating expenses, net	(4,323,776)	(3,960,846)
Total non operating revenues, net	30,662,001	30,427,047
Change in net assets	3,745,899	5,410,493
Total net assets, beginning	80,009,849	74,599,356
Total net assets, ending	$ 83,755,748	$ 80,009,849

The accompanying notes are an integral part of the financial statements.

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2004 and June 30, 2003

	2004	2003
Cash flows from operating activities:		
Receipts from customers	$ 16,780,584	$ 15,406,615
Payments to suppliers	(33,778,928)	(34,076,979)
Payments to employees	(3,086,354)	(3,175,532)
Net cash used in operating activities	(20,084,698)	(21,845,896)
Cash flows from noncapital financing activities:		
Governmental subsidies	19,694,980	17,923,211
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(8,443,695)	(9,476,597)
Capital grants and assistance	15,818,247	15,205,206
Principal paid on capital lease obligations	(758,718)	(829,684)
Interest paid on capital lease obligations	(136,917)	(154,920)
Principal paid on bonds and note	(4,620,000)	(4,405,000)
Interest paid on bonds and note	(3,989,211)	(4,200,318)
Net cash used in capital and related financing activities	(2,130,294)	(3,861,313)
Cash flows from investing activities:		
Interest received on investments	881,973	1,259,476
Net decrease in cash and cash equivalents	(1,638,039)	(6,524,522)
Cash and cash equivalents, beginning	25,357,091	31,881,613
Cash and cash equivalents, ending	$ 23,719,052	$ 25,357,091
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (26,916,102)	$ (25,016,554)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	6,595,698	5,837,560
Increase in accounts receivable	(454,003)	(343,641)
Decrease in advances and deposits	-	72,000
Decrease (Increase) in inventory	16,271	(112,952)
Decrease (increase) in prepaid expenses	(62,329)	74,336
Increase (decrease) in accounts payable and accrued expenses	722,629	(2,673,192)
Increase in deferred ticket sales	116,702	409,908
Decrease in contract retainage	(103,564)	(93,361)
Net cash used in operating activities	$ (20,084,698)	$ (21,845,896)

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

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, consisting of three commissioners appointed from each of NVTC and PRTC and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The system is not currently configured for fare revenues alone to produce positive net income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds, Federal and Commonwealth of Virginia grants and jurisdictional contributions based on a population/ridership formula that are supplemented by voluntary donations from contributing jurisdictions. Grants and contributions fund both operations and capital projects. Participating jurisdictions include the counties of Fairfax, Prince William, and Stafford; and the cities of Manassas, Manassas Park and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia.

Measurement Focus, Basis of Accounting

VRE prepares its financial statements using the accrual basis of accounting. The activities of VRE are similar to those of proprietary funds of local jurisdictions. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," VRE has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions unless those pronouncements conflict with or contradict GASB pronouncements.

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 operating resources are included in the

1. Summary of Significant Accounting Policies, Continued:

statements of revenues and expenses when expended. VRE records monetary and in-kind contributions as it assesses matching obligations to the jurisdictions or other construction partners. Any excess of revenues or expenses at year end are recorded as deferred revenue or accounts receivable, respectively. Passenger revenues received in advance are deferred until earned.

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, a 2a7-like pool) is reported at the Pool's share price.

Restricted Cash and Cash Equivalents: Restricted cash, cash equivalents and investments of $22,270,530 and $24,398,620 at June 30, 2004 and 2003, respectively, are comprised of funds related to bond compliance requirements, and the Liability Insurance Plan. Included in this amount are proceeds from release of bond debt service reserve funds, which management has designated for use in VRE's construction programs and proceeds from the lease purchase of the fare collection system that had not been fully disbursed as of June 30, 2004.

Allowance for uncollectible accounts: VRE calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance was $91,409 at June 30, 2004.

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. 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 initially capitalized. Asset costs include allocation of certain common construction costs, based on the relationship of associated direct costs. Assets constructed directly by jurisdictions in satisfaction of system financial responsibilities have been capitalized at the estimated fair market value as of the date of donation.

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

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

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued:

shared investments in jurisdictional facilities (“equity in local properties”) recognize the right of access for commuter rail patrons granted to the Commissions.

Provision for depreciation has been calculated using the group depreciation method. Under this method homogeneous groups of assets with similar useful lives are grouped together and depreciation is applied to the entire group. The estimated useful lives of the assets are as follows:

Rolling stock	8-40 years
Facilities	30-40 years
Track and signal improvements	30 years
Equity in local properties	35 years
Station equipment	5 years
Vehicles	5 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, 2004.

Compensated absences: VRE employees are granted vacation leave based on length of employment. Employees with less than ten years of service may carry over a total of 225 hours of leave from year to year, while those with more than ten years may carry over 300 hours. Excess leave may convert to sick leave or may be paid out with the approval of the Chief Executive Officer. Employees may accumulate sick leave without limitation. Employees who separate in good standing after five or more years of service will be paid out for twenty-five 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 and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

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

Estimates: 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.

NOTES TO FINANCIAL STATEMENTS, Continued

2. Cash, Cash Equivalents and Investments:

Deposits: All cash of the 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.

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

At June 30 the VRE had investments 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 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 Commonwealth of Virginia Department of Treasury manages the VRE Insurance Trust. State statutes govern the portion of assets invested in Commonwealth’s pooled accounts, while the remainder is invested by an external portfolio manager.

Investments are categorized below to give an indication of the level of risk assumed by the VRE at year end. Category 1 included investments that are insured or registered or for which the securities are held by the VRE or its safekeeping agent in the VRE’s name. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker or dealer bank’s trust department or safekeeping agent in the VRE’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the VRE’s name. At year end, the VRE’s investment balances were as follows:

	Category			Fair
	1	2	3	Value
US government securities	$ -	$ -	$ 6,856,447	$ 6,856,447
Investments not subject to categorization:				
State Treasurer’s Local Government Investment Pool				1,039,065
Insurance trust fund				15,290,158
Total deposits				532,847
Cash on hand				535
Total cash on hand, deposits and investments				$ 23,719,052

NOTES TO FINANCIAL STATEMENTS, Continued

3. Capital Assets:

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Capital assets not being depreciated:				
Construction in progress	$ 23,701,581	$ 5,386,173	$ (7,866,532)	$ 21,221,222
Capital assets being depreciated:				
Rolling Stock	73,305,328	3,020,715	6,343,210	82,669,253
Vehicles	-	22,882	-	22,882
Facilities	36,002,866	-	1,205,956	37,208,822
Track and Signal Improvements	27,628,930	-	-	27,628,930
Equipment	4,658,485	17,998	-	4,676,483
Equity in local properties	4,998,368	-	-	4,998,368
Office furniture & equipment	1,949,524	204,678	108,615	2,262,817
Total capital assets being depreciated	148,543,501	3,266,273	7,657,781	159,467,555
Less accumulated depreciation for:				
Rolling Stock	23,328,068	3,791,850	-	27,119,918
Vehicles	-	2,288	-	2,288
Facilities	8,186,331	973,894	-	9,160,225
Track and Signal Improvements	3,200,296	921,038	-	4,121,334
Equipment	1,991,637	605,818	-	2,597,455
Equity in local properties	1,532,957	142,813	-	1,675,770
Office furniture & equipment	511,402	157,997	-	669,399
Total accumulated depreciation	38,750,691	6,595,698	-	45,346,389
Total capital assets being depreciated, net	109,792,810	(3,329,425)	7,657,781	114,121,166
Totals	$ 133,494,391	$ 2,056,748	$ (208,751)	$ 135,342,388

4. Related Parties Transactions:

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2004 and 2003, these payments included $2,747,743 and $2,674,753 of salary-related costs and $42,408 and $38,067 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 $91,574 and $75,007 to NVTC and $187,758 and $292,957 to PRTC during 2004 and 2003 respectively.

NOTES TO FINANCIAL STATEMENTS, Continued

4. Related Parties Transactions (Continued)

VRE also contracts with PRTC for connecting bus service to selected stations on an as needed basis. PRTC bus service costs amounted to approximately $1,970 and $59,972 in 2004 and 2003, respectively. Amounts payable to NVTC and PRTC were $7,870 and $511,767 at June 30 2004 and $12,756 and $594,327, respectively at June 30, 2003.

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, permanent employees of VRE participate in the VRS through the PRTC. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service or at age 50 with at least 30 years of service, if elected by the employer, payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. AFC is defined as the highest consecutive 36 months of reported compensation. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost of living increases limited to 5% 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/2003AnnuRept.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% of their annual salary to the VRS. VRE has assumed this 5% member contribution. In addition, VRE is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. VRE's contribution rate for fiscal year 2004 was 10.75% of annual covered payroll.

5. Defined Benefit Pension Plan (continued)

C. Annual pension cost

For Fiscal Year 2004, VRE's annual pension cost of $241,675 was equal to VRE's required and actual contributions. The required contributions were determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return (b) projected salary increases ranging from 4% to 7% per year, and (c) 3% per year cost of living adjustments. Both (a) and (b) included an inflation component of 3%. 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 30 years or less.

At June 30, VRE accounted for 37 of the 80 active PRTC employees.

6. Operating Leases and Agreements:

Operating Access Agreements with the CSX and Norfolk Southern 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 commuter rail service. During 2004 and 2003, annual track usage fees totaled approximately $5,230,555 and $4,407,595, respectively, and facility agreements with the railroads totaled approximately $1,259,544 and $1,119,343, 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 $15,269,724 in 2004 and $13,747,948 in 2003. At June 30, 2004 the agreement with Amtrak had been extended until June 30, 2005.

VRE has entered into a series of operating leases with Sound Transit for a total of eighteen bi-level rail cars and two locomotives. The leases provide for monthly payments in the amount of $141,089, adjusted annually by the urban CPI, subject to termination upon 120 days notice.

NOTES TO FINANCIAL STATEMENTS, Continued

7. Long-term Debt Obligations:

The following is a summary of long-term liability activity for the year ended June 30, 2004:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue Bonds	$ 78,875,000	$ -	$ (4,560,000)	$ 74,315,000	$ 4,775,000
Capital Leases	2,777,656	-	(758,718)	2,018,938	365,987
Note Payable	840,000	-	(60,000)	780,000	60,000
	82,492,656	-	(5,378,718)	77,113,938	5,200,987
Compensated Absences	149,478	25,073	-	174,551	-
	$ 82,642,134	$ 25,073	$ (5,378,718)	$ 77,288,489	$ 5,200,987

Revenue Bonds:

$37,625,000 Commuter Rail Revenue Refunding Bonds, series 1993; due in annual maturities of $3,765,000 to $5,065,000 through July 2010, plus semi-annual interest at 4.9% to 5.25%	$ 30,660,000
$23,000,000 Commuter Rail Revenue Bonds, series 1997; due in annual maturities of $910,000 to $2,115,000 through July 2017, plus semi-annual interest at 4.7% to 6.0%	18,555,000
$31,700,000 Commuter Rail Revenue Refunding Bonds, series 1998; due in annual maturities of $100,000 to $6,555,000 through July 1, 2014, plus semi-annual interest at 4.3% to 5.375%	25,100,000
	74,315,000
Less unamortized:	
Deferred loss	(2,120,953)
Discount	(185,435)
(Premiums)	617,847
Total bonded debt	$ 72,656,459

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**
2005	$ 4,775,000	$ 3,790,058	$ 8,565,058
2006	5,010,000	3,550,539	8,560,539
2007	5,255,000	3,296,729	8,551,729
2008	5,520,000	3,027,016	8,547,016
2009	5,795,000	2,731,522	8,526,522
2010-2014	34,000,000	8,494,685	42,494,685
2015-2018	13,960,000	1,038,681	14,998,681
	$ 74,315,000	$ 25,929,230	$ 100,244,230

NOTES TO FINANCIAL STATEMENTS, Continued

7. Long-term Debt Obligations, continued

Deferred bond costs, consisting of bond 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 bonds. Amortization of deferred bond costs, approximating $56,982, is included in interest expense in 2004 and 2003, respectively.

The Indentures of Trust for the 1997 Commuter Rail Revenue Bonds required VRE to maintain a debt service reserve. During fiscal year 2000 VRE purchased a surety in substitution of the debt service reserve fund, releasing the proceeds from the reserve. The Indentures of Trust for the 1997 issue also require the maintenance of an operating reserve equivalent to one-third (33.3%) of annual budgeted operating expenses. As of June 30, 2004 and 2003, VRE designated $15,916,621 and $16,167,674 respectively of its cash, the restricted bond interest and principal funds, inventory and receivables as this operating reserve. The reserves represented 51.6% and 58.2% of budgeted operating expenses, 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, 2004 and 2003, are as follows:

	2004	2003
Bond Interest Fund	$ 1,968,456	$ 2,065,441
Bond Principal Fund	4,887,991	4,560,419
Total Held by Trustee	$ 6,856,447	$ 6,625,860

Capitalized leases:

$2,717,409 capitalized lease obligation due $39,347 monthly, interest at 5.73%, maturing in 2009, collateralized with a fare collection system with a carrying value of $2,024,613	$ 2,018,938

Future minimum lease payments as of June 30, 2004 are as follows:

2005	$ 472,160
2006	472,160
2007	472,160
2008	472,160
2009	432,811
Total minimum lease payments	2,321,451
Lease amount representing interest	302,513
Present value of lease payments	$ 2,018,938

7. Long-term Debt Obligations, continued

Note Payable:

In June 2002, VRE entered into a borrowing with SunTrust Bank in the amount of $900,000 to refinance a previous borrowing from Wachovia Bank used to purchase the VRE offices. This note carries a repayment schedule of 15 years, with the terms of the note subject to revision June 2007. The current note is secured by the office condominium and bears interest at 68% of the one-month LIBOR plus 47 basis points. Principal of $5,000 plus interest is payable monthly. The interest rate at June 30 was 1.235%. During FY 2004 VRE paid $60,000 in principal and $10,178 in interest.

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. Short term debt activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Draws	Repayments	Ending Balance
Line of credit	$ -0-	$ 1,665,000	$ 1,665,000	$ -0-

9. Liability Insurance Plan:

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. The Commissions indemnify each of the railroads in an amount up to $248,000,000 for any claims against persons or property associated with commuter rail operations.

Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. In fiscal year 2004, approximately one-half of plan assets were invested in the Department of Treasury common pool, and the remainder were invested in a portfolio managed by external financial consultants. Activity in the Insurance Trust Fund for the years ended June 30, 2004 and 2003 was as follows:

	2004	**2003**
Balance beginning, July 1	$ 17,648,836	$ 18,879,816
Insurance premiums paid	(2,961,485)	(2,047,945)
Claims mitigation costs and losses incurred	(116,982)	(340,483)
Investment income	837,583	1,171,667
Actuarial and administrative charges	(117,794)	(14,219)
Balance ending, June 30	$ 15,290,158	$ 17,648,836

NOTES TO FINANCIAL STATEMENTS, Continued

9. Liability Insurance Plan, continued

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.

10. Contingencies and Contractual Commitments:

At June 30, 2004 there were disputes between the VRE and certain vendors. The amount 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, 2004:

Station and parking lots	$	1,534,082
Maintenance and layover yards		988,887
Track and signal improvements		497,906
Other Administrative		1,213,391
	$	4,234,266

11. Subsequent Events:

On September 29, 2004 VRE entered into an agreement with the State of Connecticut Department of Transportation to sell thirty-three Mafersa single level rail cars for $13,250,000 and associated parts inventory for $200,000. The agreement provides for a lease back of up to seven cab cars to VRE through June of 2006 for $1 per year. At June 30, 2004 the net book value of the cars was approximately $16.5 million and the carrying value of the inventory was estimated to be $400,000.

12. Pending GASB Statements

At June 30, 2004, the Governmental Accounting Standards Board (GASB) had issued statement number 40, *Deposits and Investment Risk Disclosures*, an amendment of GASB Statement Number 3 which requires certain disclosures of investments that are highly sensitive to interest rate risk and modifies the custodial credit risk disclosures of Statement Number 3. The provisions of Statement number 40 will be effective for periods beginning after June 15, 2004.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* requires evaluation and reporting the effects of capital asset impairments and insurance recoveries when they occur.

12. Pending GASB Statements, continued

The provisions of Statement No. 42 will be effective for fiscal years beginning after December 15, 2004.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* provides uniform financial reporting standards for OBEB (Other Postemployment Benefit) plans. The provisions of Statement No. 43 will be effective for periods beginning after December 15, 2007.

GASB Statement No. 44, *Economic Condition Reporting: the Statistical Section, an amendment of NCGA Statement No. 1*, clarifies and establishes objectives of the statistical section and its five categories of information: financial trends, revenue capacity, debt capacity, demographic and economic, and operating.

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

Statistical Section

Virginia Railway Express

Expenses by Function
Last Ten Fiscal Years

Fiscal Year	Contract Operations and Maintenance	Other Operations and Maintenance	Property Leases and Access fees	Insurance	Marketing and Sales	General and Administrative	Depreciation	Financing and other Non Operating Costs	Totals
1995	$ 8,096,388	$ 1,316,015	$ 2,165,913	$ 1,896,474	$ 623,942	$ 1,576,569	$ 3,806,034	$ 5,013,699	$ 24,495,034
1996	8,327,348	1,757,034	3,106,246	2,013,759	701,502	1,694,394	3,964,793	4,840,251	26,405,327
1997	9,069,346	1,989,717	3,499,324	1,842,283	719,874	1,678,625	4,475,630	4,658,821	27,933,620
1998	9,238,341	2,129,560	3,403,352	942,196	719,689	2,036,545	4,697,006	5,868,344	29,035,033
1999	9,426,764	2,468,107	3,841,159	1,662,073	781,955	2,011,298	4,358,362	5,482,403	30,032,121
2000	10,861,997	2,927,389	4,451,130	1,596,382	942,040	2,804,978	4,556,921	5,586,847	33,727,684
2001	11,340,419	4,301,643	5,046,537	1,049,905	1,073,257	3,402,105	5,246,347	5,113,403	36,573,616
2002	12,188,085	4,558,318	6,308,712	1,340,527	1,549,752	4,496,015	5,261,679	6,250,481	41,953,569
2003	13,095,504	4,741,041	7,307,905	2,429,993	1,482,131	5,462,768	5,837,560	3,960,846	44,317,748
2004	14,212,476	5,466,313	8,163,632	3,275,081	1,279,549	5,041,238	6,595,698	4,323,776	48,357,763

Source: VRE Department of Finance

Virginia Railway Express

Revenues by Source
Last Ten Fiscal Years

Fiscal Year	Passenger Revenue	Equipment Rentals & Other	Subsidies and Grants: Commonwealth	Subsidies and Grants: Federal	Subsidies and Grants: Local and Other	Interest	Totals
1995	$ 7,865,974	$ 668,243	$ 6,493,034	$ 3,474,927	$ 5,865,444	$ 2,103,812	$ 26,471,434
1996	8,519,735	760,851	5,898,628	7,487,174	6,370,767	2,097,496	31,134,651
1997	7,650,245	778,798	6,485,430	9,311,521	5,752,891	2,117,111	32,095,996
1998	6,475,680	172,326	6,538,183	10,146,384	5,752,889	3,120,338	32,205,800
1999	7,526,837	140,822	6,323,508	8,469,164	5,752,890	2,803,056	31,016,277
2000	8,761,919	363,972	8,823,209	16,622,941	6,238,306	2,181,406	42,991,753
2001	10,358,348	130,110	11,984,626	21,157,431	7,090,662	1,904,672	52,625,849
2002	12,753,214	206,796	13,281,956	16,224,151	6,452,265	1,417,195	50,335,577
2003	15,048,262	292,086	11,152,320	15,766,058	6,210,039	1,259,476	49,728,241
2004	16,929,629	188,256	11,691,385	12,916,210	9,496,209	881,973	52,103,662

Source: VRE Department of Finance

Virginia Railway Express

Ridership
Last Ten Fiscal Years

Fiscal Year	Total Ridership
1995	1,810,042
1996	1,875,411
1997	1,751,210
1998	1,502,845
1999	1,741,922
2000	2,032,147
2001	2,432,317
2002	2,817,405
2003	3,283,079
2004	3,515,660

Virginia Railway Express

Miscellaneous Statistics

Began Operation:		
	Fredericksburg Line	June 1, 1992
	Manassas Line	July 1, 1992
Number of Stations		18
Rolling Stock:		
	Locomotives	21
	Rail Cars	125
Employees		34
Average Daily Ridership, FY 2004		
	Fredericksburg Line	7,687
	Manassas Line	6,804
Parking Spaces		6,500
Rail car Seats		8,190

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

To the Commissioners
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

We have audited the financial statements of the Virginia Railway Express as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Virginia Railway Express' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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
August 13, 2004