
Office of Inspector General

Audit Report

QUALITY CONTROL REVIEW OF AUDITED FINANCIAL STATEMENTS FOR FISCAL YEARS 2011 AND 2010

Union Station Redevelopment Corporation

Report Number: QC-2013-100

Date Issued: June 20, 2013





Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **INFORMATION:** Quality Control Review of
Audited Financial Statements for Fiscal Years
2011 and 2010, Union Station Redevelopment
Corporation
Report Number: QC-2013-100

Date: June 20, 2013

From: Louis C. King 
Assistant Inspector General for Financial and
Information Technology Audits

Reply to
Attn. of: JA-20

To: Federal Railroad Administrator

I respectfully submit our report on the quality control review (QCR) of the Union Station Redevelopment Corporation's (USRC) audited financial statements for fiscal years 2011 and 2010. The audit of USRC's financial statements as of and for the years ended September 30, 2011 and 2010, was completed by Rogers & Company PLLC, of Vienna, VA (see Attachment), under contract to USRC. The contract required Rogers & Company PLLC to perform the audit in accordance with auditing standards generally accepted in the United States of America.

We conducted this QCR in response to a Congressional request for a full Federal audit of the management and financial viability of USRC from the Ranking Members of the U.S. House Committee on Transportation and Infrastructure and its Subcommittee on Economic Development, Public Buildings, and Emergency Management. To address this Congressional request, we performed (1) this QCR of Rogers & Company PLLC's Independent Auditors' Report and audit documentation, and (2) a separate audit that assessed the adequacy of USRC's oversight over Union Station's development, operations and maintenance. The report for the latter will be issued separately and will address the adequacy of financing for the continued operations of Union Station.

Rogers & Company PLLC concluded that the financial statements presented fairly, in all material respects, USRC's financial position on September 30, 2011, and 2010, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States

of America. Also, Rogers & Company PLLC's report did not include any reportable deficiencies in internal control over financial reporting.

Our QCR as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express, an opinion on USRC's financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. Rogers & Company PLLC is responsible for its report dated February 24, 2012, and the conclusions expressed therein. Our QCR disclosed no instances in which Rogers & Company PLLC did not comply, in all material respects, with auditing standards.

We appreciate the cooperation and assistance of USRC's representatives and Rogers & Company PLLC. If we can answer any questions, please call me at 202-366-1407, or George Banks, Program Director, at 410-962-1729.

Attachment

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Union Station Redevelopment Corporation

We have audited the accompanying statements of financial position of the Union Station Redevelopment Corporation (USRC) as of September 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of USRC's 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. Those standards require that we plan and perform the audits 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 audits provide 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 USRC at September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of functional expenses on page 17 are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Vienna, Virginia
February 24, 2012

Union Station Redevelopment Corporation

Statements of Financial Position September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 29,806,828	\$ 31,378,791
Accounts receivable, USI	1,127,949	1,143,164
Accounts receivable, parking garage	685,433	946,674
Accounts receivable, other	354,936	-
Prepaid expenses and other assets	467,272	413,336
Property and equipment, net	<u>40,995,241</u>	<u>40,041,568</u>
Total assets	<u>\$ 73,437,659</u>	<u>\$ 73,923,533</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 783,650	\$ 971,751
Accrued possessory tax assessment	4,524,558	3,276,016
Deferred revenue	83,333	-
Note payable	29,823,097	35,757,394
Interest rate swap	<u>2,942,910</u>	<u>-</u>
Total liabilities	<u>38,157,548</u>	<u>40,005,161</u>
Net Assets - Unrestricted		
Available for support of operations and distribution to Amtrak	30,850,371	29,636,232
Designated by the Board for the Garage Maintenance Reserve Fund	<u>4,429,740</u>	<u>4,282,140</u>
Total net assets	<u>35,280,111</u>	<u>33,918,372</u>
Total liabilities and net assets	<u>\$ 73,437,659</u>	<u>\$ 73,923,533</u>

See accompanying notes.

Union Station Redevelopment Corporation

Statements of Activities
For the Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted Revenue		
Parking garage base rent	\$ 6,100,000	\$ 6,050,000
Parking garage additional rent	2,871,832	1,694,962
USI base rent	1,000,000	1,000,000
USI participation and index rent	1,491,584	1,523,840
Investment and other income	<u>731</u>	<u>580</u>
 Total revenue	 <u>11,464,147</u>	 <u>10,269,382</u>
 Expenses		
Program - station complex maintenance and preservation	6,057,573	5,402,626
Management and general	<u>1,101,925</u>	<u>617,092</u>
 Total expenses	 <u>7,159,498</u>	 <u>6,019,718</u>
 Change in Net Assets Before Unrealized Loss on Interest Rate Swap	 4,304,649	 4,249,664
 Unrealized loss on interest rate swap	 <u>(2,942,910)</u>	 <u>-</u>
 Change in Net Assets	 1,361,739	 4,249,664
 Net Assets, beginning of year	 <u>33,918,372</u>	 <u>29,668,708</u>
 Net Assets, end of year	 <u>\$ 35,280,111</u>	 <u>\$ 33,918,372</u>

See accompanying notes.

Union Station Redevelopment Corporation

Statements of Cash Flows
For the Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,361,739	\$ 4,249,664
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,467,885	1,523,733
Unrealized loss on interest rate swap	2,942,910	-
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, USI	15,215	(27,899)
Accounts receivable, parking garage	261,241	(434,459)
Accounts receivable, other	(354,936)	-
Prepaid expenses and other assets	(53,936)	1,640
Increase (decrease) in:		
Accounts payable and accrued expenses	(188,101)	440,740
Accrued possessory tax assessment	1,248,542	478,076
Deferred revenue	83,333	-
Net cash provided by operating activities	<u>6,783,892</u>	<u>6,231,495</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	<u>(2,421,558)</u>	<u>(2,023,392)</u>
Net cash used in investing activities	<u>(2,421,558)</u>	<u>(2,023,392)</u>
Cash Flows from Financing Activities		
Proceeds from note payable	30,000,000	-
Principal payments of notes payable	<u>(35,934,297)</u>	<u>(808,645)</u>
Net cash used in financing activities	<u>(5,934,297)</u>	<u>(808,645)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(1,571,963)	3,399,458
Cash and Cash Equivalents, beginning of year	<u>31,378,791</u>	<u>27,979,333</u>
Cash and Cash Equivalents, end of year	<u>\$ 29,806,828</u>	<u>\$ 31,378,791</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 628,086</u>	<u>\$ 351,342</u>

See accompanying notes.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

1. Nature of Operations

The Union Station Redevelopment Corporation (USRC) is a not-for-profit organization incorporated in the District of Columbia on April 12, 1983. Originally, the purpose of USRC was to manage the redevelopment of Union Station and its parking garage in Washington, DC for the Secretary of Transportation of the United States, acting through the administrator of the Federal Railroad Administration (FRA). Now, USRC manages the redeveloped facilities. The redeveloped station complex, which includes a passenger railroad station, retail and office space, and a parking garage, was opened for business on September 29, 1988. Included in USRC's management responsibilities is the maintenance of the parking garage and Union Station's unique historical features.

Primary redevelopment funding of \$70 million was provided by the National Railroad Passenger Corporation ("Amtrak"). USRC's Board of Directors includes the Secretary of Transportation, the President of Amtrak, the Mayor of the District of Columbia, the Federal Railroad Administrator, and the President of the Federal City Council.

2. Summary of Significant Accounting Policies

Basis of Presentation

USRC follows generally accepted accounting principles for not-for-profit organizations. Accordingly, net assets are classified based on the presence or absence of donor-imposed restrictions. As of September 30, 2011 and 2010, all of USRC's net assets were unrestricted and represent funds that are available for support of operations and distribution to Amtrak. Of this amount, \$4,429,740 and \$4,282,140 were designated for the Garage Maintenance Reserve Fund at September 30, 2011 and 2010, respectively (see Note 14).

Cash and Cash Equivalents

For the purpose of the statements of cash flows, USRC considers as cash equivalents money market funds and all highly liquid investments, which can be converted into known amounts of cash and have an original maturity period of ninety days or less at the time of purchase. Cash and cash equivalents potentially subject USRC to significant concentrations of credit risk. The Dodd-Frank Financial Regulatory Reform legislation makes all non-interest-bearing transaction accounts fully insured without limit, effective December 31, 2010 until January 1, 2013. Based on this legislation, all USRC's non-interest-bearing cash accounts, which totaled \$16,260,957 at September 30, 2011, are fully covered by the current Federal Depository Insurance Corporation (FDIC) limits. USRC also maintains an interest-bearing account, totaling \$13,545,871, with a financial institution that exceeds FDIC limits at September 30, 2011. USRC has not experienced any credit losses on its cash and cash equivalents to date as it relates to FDIC insurance limits. Management periodically assesses the financial condition of these financial institutions, and believes that the risk of any credit loss is minimal.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are recorded at their net realizable value. Accounts receivable are ordinarily due 30 days after the amount is invoiced. Receivables considered delinquent, based on periodic reviews by management, and determined to be uncollectible will be reserved for based on individual credit evaluation and specific circumstances. At year-end, management estimates that all receivables are fully collectible. Therefore, no allowance for doubtful accounts has been recognized at September 30, 2011 and 2010.

Property and Equipment

Property and equipment acquisitions totaling over \$1,000 with a projected life exceeding one year are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the individual classes of assets, which range from three to five years for furniture, office and computer equipment. Leasehold improvements including interest capitalized in connection with major long-term leasehold improvements are stated at cost, and are amortized using the straight-line method over the shorter of their estimated useful lives (10-40 years) or the lease term.

Interest Rate Swap

During 2011, USRC entered into an interest rate swap agreement to manage the interest cost and risk associated with its outstanding debt. The interest rate swap agreement was not entered into for trading or speculative purposes. This is accounted for under Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*. USRC is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreement. The counterparty for this swap transaction is a major financial institution, from which USRC management does not anticipate nonperformance.

Revenue Recognition

Revenue is principally derived from contracts and recognized when earned. USRC had no contribution revenue for the years ended September 30, 2011 and 2010.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

At September 30, 2011 and 2010, the fair value of the majority of USRC's financial instruments approximates carrying value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents - The carrying amount is a reasonable estimate of fair value due to their short-term nature.

Receivables - The carrying amount of these accounts approximates fair value, except for a portion of other receivables totaling \$322,059, because of the short-term maturity of these instruments. Other receivables for \$322,059 are expected to be collected over a three-year period beginning in fiscal year 2013. The fair value is estimated to be \$312,868, based on the present value of future cash receipts using an interest rate available to USRC at September 30, 2011 over the collection period.

Accounts Payable and Accrued Expenses - The carrying amount of these accounts approximates fair value due to the short-term maturity of these obligations.

Note Payable - The carrying amount approximates fair value, since the interest rate charged is adjusted to market value on a monthly basis.

Interest Rate Swap - The fair value and carrying amount of the interest rate swap agreement is based on the estimated present value of the difference between the fixed and variable interest cash flows.

Use of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Such estimates include the useful lives of depreciable and amortizable assets and valuation of accrued expenses.

Measure of Operations

USRC considers the unrealized loss on the interest rate swap to be an item not included in operations.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of USRC's programs and administration have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs or functions benefited.

3. Property and Equipment

USRC held the following property and equipment as of September 30:

	<u>2011</u>	<u>2010</u>
Leasehold improvements	\$ 52,746,700	\$ 50,338,920
Office furniture and equipment	1,127,226	1,126,371
Computer equipment	<u>182,610</u>	<u>169,687</u>
Total property and equipment	54,056,536	51,634,978
Less: accumulated depreciation and amortization	<u>(13,061,295)</u>	<u>(11,593,410)</u>
Property and equipment, net	<u>\$ 40,995,241</u>	<u>\$ 40,041,568</u>

Depreciation and amortization expense was \$1,467,885 and \$1,523,733 for the years ended September 30, 2011 and 2010, respectively.

4. Lease Agreement with the Federal Railroad Administration (FRA)

Effective October 31, 1985, USRC entered into an agreement with the FRA to lease the Union Station complex for 29 years, with options to extend the lease for up to five subsequent 14-year terms, of which all renewal options have been exercised, extending the lease through 2084. This lease contains funding clauses wherein both parties are not obligated to carry out the lease term and related responsibilities if sufficient funds are not available. As part of the agreement, USRC is responsible for redevelopment, maintenance, and operation of the station complex. The agreement provided for funding by the FRA for certain maintenance and operation expenses of the station, to the extent that funds are appropriated or otherwise made available to the FRA for such purposes.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

5. **Sublease Agreement with Union Station Investco LLC. (USI), Successor to Union Station Venture, LTD. (USV)**

Effective October 31, 1985, USRC entered into an agreement with USV to sublet the Union Station complex for 29 years, with options for up to five subsequent 14-year terms. This sublease is subordinate to the aforementioned lease with the FRA.

As part of the agreement, USV is responsible for developing and leasing the retail and office space and for maintaining and operating the complex. USRC receives annual rent of \$1,000,000, plus a percentage of net profit from rental operations (participation rent) and a payment based on a percentage of the change in consumer price index multiplied by the annual rent (index rent). During fiscal year 2007, USV sold their leasehold interest to USI.

The terms and conditions of the above agreement remain in effect, and USI has assumed all rights and obligations under the agreement previously assigned to USV. USI has also exercised the option to renew the sublease for the five subsequent 14-year terms.

During the year ended September 30, 2008, USRC and USI signed the Third Amendment to the USRC/USV sublease, which changed the participation rent to a fixed payment schedule, effective retroactively beginning in calendar year 2007.

Receivables from USI relating to participation and index rent totaled \$1,127,949 and \$1,143,164 at September 30, 2011 and 2010, respectively.

In connection with the sale, the District of Columbia revalued the leasehold interest for purposes of assessing the annual possessory tax assessment. This resulted in a tax obligation of \$9,049,116, including interest and penalty from 2008 to 2011, of which 50% is estimated as USRC's obligation and is accordingly recognized as accrued possessory tax expense assessment in the accompanying statement of financial position at September 30, 2011 and 2010. On July 21, 2011, USRC filed a complaint with the Superior Court of the District of Columbia, contesting the validity of the assessment of the possessory interest tax and related charges. In July 2008, USRC and USI also entered into an agreement to each pay one-half of all legal and other related costs regarding the possessory interest tax assessment challenge. As of September 30, 2011 and 2010, the costs incurred by USRC relating to the possessory interest tax challenge were \$345,701 and \$125,900, respectively.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

6. **Parking Garage Operator Contract**

In October 2008, USRC entered into an agreement with a contractor for the management, operation, and maintenance of the parking facilities adjacent to the Union Station complex through September 2011. Under the terms of the agreement, the contractor agreed to pay USRC an annual minimum rent of \$6,000,000, increasing by \$50,000 in each subsequent year, plus all net profit less incentive fees resulting from operations of the garage, which is recorded as parking garage additional rent in the statements of activities. During fiscal year 2011, USRC extended the agreement through September 2013. The annual minimum rent for the years ended September 30, 2011 and 2010 was \$6,100,000 and \$6,050,000, respectively.

7. **Intercity Bus Facilities**

Effective August 17, 2011, USRC entered into a Memorandum of Understanding (MOU) with several intercity bus operators ("the Operators") to establish initial terms and use of a bus deck in the parking garage adjacent to Union Station, and an offsite parking lot located near Union Station in order to provide bus storage and related amenities for the displaced tour bus operators. USRC has funded initial costs in connection with evaluating the feasibility, design, engineering and construction of the bus deck and offsite parking lot. Such costs are recoverable by USRC from the Operators as USRC is to operate the bus facilities in a manner that is capital and revenue neutral.

On November 1 2011, USRC and the Operators entered into multi-year binding license agreements that supersede the terms of the MOU, detailing terms of conditions regarding the use of the bus facilities in exchange for pre-defined fees intended to cover USRC operating and management costs. Under the license agreements, all initial costs, as noted above, incurred by USRC, plus interest at the rate of 3% per annum until fully reimbursed, is to be repaid from the Operators after the bus facility improvements become fully operational. It is estimated that the bus facility improvements will be fully completed in November 2012. Repayment is anticipated to occur over a three-year period beginning in fiscal year 2013. USRC incurred initial costs totaling \$322,059, net of a non-refundable \$70,700 aggregate deposit made by the Operators and is included in the statement of financial position as other accounts receivable at September 30, 2011.

8. **Related Party Transactions**

In June 2005, USRC entered into an agreement with Amtrak for engineering and related services in connection with the Union Station garage expansion. The agreement, which was amended on October 28, 2009 to increase scope of services, is for Amtrak to provide forces to support USRC construction work that Amtrak deems as affecting the operating railroad. Estimated costs are detailed in the agreement but are not considered contractual obligations. The costs incurred under the agreement totaled \$140,133 and \$262,064 for the years ended September 30, 2011 and 2010, respectively, and are included in property and equipment in the accompanying statements of financial position.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

8. Related Party Transactions (continued)

At September 30, 2011 and 2010, USRC had prepaid assets of \$309,800 with Amtrak related to the agreement, and accounts payable of \$25,146 and \$152,361, respectively, to Amtrak. The services and related construction work was completed in January 2012.

9. Distribution Income

By agreement with Amtrak and the FRA, income earned by USRC (from rents, parking garage revenue, and interest income) is to be expended or distributed as follows:

- a) First, to pay operating expenses and Amtrak's contributions to the Capital Maintenance Reserve Fund (see Note 13), and to pay financial obligations incurred by USRC in the course of USRC's authorized operations.
- b) Second, to pay the FRA \$118,239 in rent each month through June 2001 to cover the FRA's mortgage payment on Union Station.
- c) Third, to pay amounts advanced to USRC by the FRA.
- d) Fourth, to pay amounts due to the FRA from (b) above that was previously deferred.
- e) Fifth, to distribute all remaining income to Amtrak.

In fiscal year 2002, USRC completed all payment obligations to the FRA (b, c, d).

10. Note Payable and Interest Rate Swap Agreement

In July 2005, USRC entered into a \$38 million construction/term loan and promissory note, collectively referred to as a term note, with a financial institution to provide funds for its garage expansion. On June 9, 2011, USRC refinanced \$30 million of the outstanding promissory note with another financial institution into a term note and loan agreement that matures on June 9, 2021. The term note requires consecutive monthly principal and interest payments under interest terms at the one month LIBOR plus 0.75%, which was 0.976% at September 30, 2011, based on an amortization schedule ending June 9, 2021. The loan agreement is secured by the gross receipts from the Union Station complex and parking garage operations together with a collateral assignment of the parking garage operator contract (see Note 6). Additionally, USRC is required to adhere to certain key annual financial covenants that include maintaining certain unrestricted cash levels and satisfying a debt service coverage ratio as defined in the loan agreement. USRC was in compliance with such financial covenants at September 30, 2011 and 2010.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

10. Note Payable and Interest Rate Swap Agreement (continued)

USRC had an outstanding balance on the term note of \$29,823,097 and \$35,757,394 at September 30, 2011 and 2010, respectively. Interest expense for the years ended September 30, 2011 and 2010 was \$628,086 and \$351,342, respectively.

Total estimated principal maturities of the term note payable is as follows:

2012	\$	725,313
2013		754,488
2014		784,835
2015		816,404
2016		849,242
Thereafter		25,892,815
 Total	 \$	 29,823,097

On June 9, 2011, USRC entered into an interest rate swap agreement to manage the interest cost and risk associated with its outstanding debt. The notional amount of the swap agreement totals \$30 million. Under the terms of the agreement, USRC's interest rate exposure effectively changes its floating rate loan to a fixed rate of 3.95% and receives a variable rate on the outstanding notional principal balance. The interest rate swap agreement matures on June 9, 2021.

11. Fair Value Measurement

USRC follows Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, for financial assets and liabilities. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and level 3 is based on unobservable inputs.

The following table presents USRC's fair value hierarchy for the liability measured at fair value on a recurring basis at September 30, 2011:

	Total fair value	Level 1	Level 2	Level 3
Interest rate swap	\$ (2,942,910)	\$ -	\$ -	\$ (2,942,910)
Total liability	\$ (2,942,910)	\$ -	\$ -	\$ (2,942,910)

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

11. Fair Value Measurement (continued)

USRC entered into an interest rate swap to reduce the impact of changes in interest rates on its floating debt rate. The estimated fair value of an interest rate swap is determined by the financial institution using a model based on forward looking assumptions of interest rates and the resulting effect on the underlying cash flows of the interest rate swap. Since the interest rate swap valuation model utilizing significant inputs are unobservable, it was classified within Level 3.

The following table provides a summary of changes in fair value measurements using unobservable inputs (Level 3) for the year ended September 30, 2011:

Beginning Balance, at inception	\$ -
Loss on Interest Rate Swap	<u>(2,942,910)</u>
Ending Balance, September 30, 2011	<u>\$ (2,942,910)</u>

12. Capital Maintenance Reserve Fund

The Capital Maintenance Reserve Fund ("the Fund") was established to fund capital repairs, including repairs to Union Station's unique historical features. Under provisions of the leases for the station (see Notes 4 and 5), USI and Amtrak are required to make equal monthly contributions to the Fund. USRC makes monthly contributions on Amtrak's behalf and is responsible for expenditures in excess of the amount in the Fund.

Expenditures made from the Fund are administered by USI, successor to USV in fiscal year 2007, with approval from USRC. As part of the Third Amendment to the USRC/USV sublease, USRC and USI agreed to increase the monthly contribution to the Fund by \$10,000 each per month. In fiscal years 2011 and 2010, \$629,092 and \$586,932, respectively, of the Fund's expenses were recognized by USRC for contributions to the Fund. At September 30, 2011 and 2010, the Fund's balance was \$2,120,441 and \$1,557,087, respectively.

13. Garage Maintenance Reserve Fund

As part of the lease agreement with the FRA dated October 31, 1985 (see Note 4), USRC is responsible for the redevelopment and maintenance of the station complex which includes maintenance of the parking garage facility. In July 1996, the USRC Board of Directors established the Garage Maintenance Reserve Fund ("the Reserve") for concrete repair and expansion, joint rehabilitation of the parking garage, and for garage and/or station repairs.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

13. Garage Maintenance Reserve Fund (continued)

The Reserve balance is calculated as the sum of all additions to the Reserve less garage maintenance expenditures specifically designated by the Board of Directors. All other garage expenditures are funded using general operating funds. At September 30, 2011 and 2010, the Reserve balance was \$4,429,740 and \$4,282,140, respectively.

14. Commitments and Contingencies

Operating Lease

USRC has its administrative office facilities in the District of Columbia. Rent expense for the years ended September 30, 2011 and 2010 was \$109,956 and \$104,535, respectively. During fiscal year 2007, USRC entered into a prime lease with the landlord commencing in September 2007 and expiring in December 2012. In addition, USRC entered into a copier lease under operating lease that expires in January 2015.

Future minimum lease payments are as follows for the years ending September 30:

2012	\$	119,730
2013		34,531
2014		4,380
2015		1,460
		<hr/>
Total future minimum payments	\$	<u>160,101</u>

Conditional Contribution Payable

USRC approved the contribution of funds in the amount of \$4,270,500 to the District Department of Transportation (DDOT) to be used as local matching funds for DDOT in conjunction with an FRA grant for the replacement of ten escalators in the Union Station parking garage. The contribution was considered to be conditional at September 30, 2011 since the decision by the Council of the District of Columbia ("DC Council") to approve the sole source contract that will allow for use of the DDOT funds was pending. Subsequent to September 30, 2011, USRC transferred the entire contribution amount to DDOT, however, the decision by the DC Council was still pending.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

14. Commitments and Contingencies (continued)

Earthquake Contingency

Union Station sustained damage as a result of the August 23, 2011, East Coast Earthquake. Union Station was insured against loss due to earthquake under a policy obtained by USI (see Note 5). USRC estimates that total repair costs may exceed \$8 million. To date, the insurer has advanced \$2 million for the repair work. In the event that any portion of the loss is not covered by insurance, any shortfall will be funded from the Capital Maintenance Reserve Fund established by the USI Sublease. USRC bears financial responsibility for any shortfall in the fund. USRC also could incur fees of a public adjuster engaged to assist USRC and USI with the insurance coverage claim.

Other Contingencies

From time to time, USRC is subject to lawsuits and other legal actions arising in the ordinary course of business. In the opinion of management, such matters will not have a material adverse effect on USRC's financial condition or change in net assets. There were no matters pending at September 30, 2011 and 2010.

15. Employee Benefit Plans

USRC established qualified section 401(a) defined contribution retirement and retirement savings plans effective July 1, 1984. Under the defined contribution retirement plan, all employees paid on a salaried basis, as defined in the plan, are eligible to participate after one year of employment. USRC contributes 8% of employees' annual base pay toward the defined contribution retirement plan. Under the retirement savings plan, all employees are eligible to participate immediately and USRC matches employee contributions up to 5% of the annual base pay for each participant in the plan. Contributions to these plans aggregated to \$34,407 and \$32,832 for the years ended September 30, 2011 and 2010, respectively, and are included as program and management and general expenses in the statements of activities.

16. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, USRC is exempt from the payment of taxes on income other than net unrelated business income. No provisions for income tax are required for the years ended September 30, 2011 and 2010, as USRC had no unrelated business income.

Management has evaluated its tax positions and is not aware of any activities that would jeopardize its tax-exempt status. For the year ended September 30, 2011 and 2010, USRC has determined that no significant uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Union Station Redevelopment Corporation

Notes to Financial Statements
September 30, 2011 and 2010

17. Subsequent Events

USRC follows the guidance of FASB ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the financial statements are issued. FASB ASC 855 also requires disclosure of the date through which an entity has evaluated subsequent events. In preparing these financial statements, USRC has evaluated events and transactions for potential recognition or disclosure through February 24, 2012, the date the financial statements were issued.

Union Station Redevelopment Corporation

Schedules of Functional Expenses For the Years Ended September 30, 2011 and 2010

	2011		
	Station Complex Maintenance and Preservation	Management and General	Total
Capital Maintenance Fund Reserve expense	\$ 629,092	\$ -	\$ 629,092
Maintenance and repairs	211,672	7,280	218,952
Salaries and wages	161,608	161,608	323,216
Payroll taxes and employee benefits	52,020	52,020	104,040
Professional services	926,551	607,766	1,534,317
Depreciation and amortization	1,446,915	20,970	1,467,885
Interest expense	628,086	-	628,086
Possessory tax assessment	1,248,542	-	1,248,542
Columbus Plaza sublease expenses	370,973	-	370,973
Insurance	93,577	13,948	107,525
Garage management expenses	157,505	-	157,505
Station improvements	131,032	-	131,032
Office rent and telephone	-	148,744	148,744
Other	-	89,589	89,589
Total Expenses	\$ 6,057,573	\$ 1,101,925	\$ 7,159,498
	2010		
	Station Complex Maintenance and Preservation	Management and General	Total
Capital Maintenance Fund Reserve expense	\$ 586,932	\$ -	\$ 586,932
Maintenance and repairs	243,741	6,351	250,092
Salaries and wages	148,606	148,606	297,212
Payroll taxes and employee benefits	50,299	50,299	100,598
Professional services	525,811	190,303	716,114
Depreciation and amortization	1,517,036	6,697	1,523,733
Interest expense	351,342	-	351,342
Possessory tax assessment	478,076	-	478,076
Columbus Plaza sublease expenses	1,341,805	-	1,341,805
Insurance	90,357	16,057	106,414
Garage management expenses	68,621	-	68,621
Office rent and telephone	-	144,944	144,944
Other	-	53,835	53,835
Total Expenses	\$ 5,402,626	\$ 617,092	\$ 6,019,718