



VALLEY METRO RAIL, INC.

Phoenix, AZ

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Period Ended June 30, 2009



VALLEY METRO RAIL, INC.

Phoenix, Arizona

Comprehensive Annual Financial Report **For the fiscal year ended** **June 30, 2009**

Prepared by:
Finance & Administration Division



A METRO three-car train on the Tempe Town Lake Bridge



Valley Metro Rail, Inc.

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Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2009

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INTRODUCTORY SECTION

The Introductory Section includes METRO's transmittal letter, policy organizational chart, and list of appointed officials



Train at Central/Washington Station



101 North 1st Avenue
Suite 1300
Phoenix, AZ 85003

January 28, 2010

To Chairman and Members of the Valley Metro Rail, Inc. Board of Directors:

The comprehensive annual financial report of Valley Metro Rail, Inc. (METRO) for the fiscal year ended June 30, 2009, is hereby submitted in accordance with the requirements of the Bylaws and Board directives. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position, results of operations and cash flows of METRO. All disclosures necessary to enable the reader to gain an understanding of METRO's activities have been included.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The independent auditors, Larson Allen, LLP, whose report is included herein, have examined the basic financial statements and related notes. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the basic financial statements of METRO as of and for the fiscal year ended June 30, 2009, are free from material misstatement. The independent audit involved examining, on a test basis; evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon their audit, that there was a reasonable basis for rendering an unqualified opinion that the basic financial statements of METRO for the fiscal year ended June 30, 2009, are fairly presented, in all material respects, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Additionally, METRO is required to have an independent audit of expenditures of federal awards received (Single Audit) by METRO directly from federal agencies, or passed through to METRO by other governmental entities during the fiscal year. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on METRO's internal controls and compliance with legal requirements having a direct and material impact on major programs, with special emphasis on internal controls and compliance requirements involving the administration of major federal awards. The results of METRO's Single Audit for the fiscal year ended June 30, 2009, found no instances of material weakness in the internal control structure or significant violations of applicable laws and regulations with respect to major programs. The auditors' reports on internal controls and compliance with applicable laws and regulations are included in a separately issued Single Audit Report.

The financial statements are prepared and presented in conformity with accounting principles generally accepted in the United States of America. More information about the presentation can be found in Management's Discussion and Analysis (MD&A) beginning on page 3 and also discussed in the notes to the financial statements beginning on page 12. This transmittal letter is designed to complement MD&A and should be read in conjunction with it.

THE FINANCIAL REPORTING ENTITY

METRO was established in October 2002 as a public nonprofit corporation formed by the cities of Glendale, Mesa, Phoenix, and Tempe to manage design, construction, and operation of the Light Rail Transit (LRT) System within the Metropolitan Area. The cities of Chandler and Peoria became contributing member cities in 2007. The City of Scottsdale joined in April of 2008 and withdrew membership effective July 1, 2009. During the fiscal year 2008-2009, a seven member Board of Directors governed METRO, consisting of the mayors or their designated representatives from each member city. With the withdrawal of Scottsdale, the Board has six members effective July 1, 2009. The Board of Directors establishes overall policies for management and administration of the LRT System, provides oversight over the design, construction and operation of light rail, and receives and disburses funds and grants from federal, state, local, and other funding sources. A Chief Executive Officer, appointed by the Board of Directors, is responsible for the day-to-day management of the organization.

LOCAL ECONOMIC CONDITION AND OUTLOOK

METRO serves the cities of Chandler, Glendale, Mesa, Peoria, Phoenix, Scottsdale, and Tempe that are centrally located in Maricopa County, Arizona. These cities have constituted a well-established growth area since 1945, and collectively encompass approximately 1,200 square miles. Together they form a significant portion of the greater metropolitan Phoenix area, which is the economic, political, and population center of Arizona.

The combined seven cities have grown from 2.5 million residents in 1990 to 3.1 million residents in 2009, an increase of approximately 20% in the last ten years. The seven cities' population represents almost 77% of the total Maricopa County population. According to the Greater Phoenix Economic Council, population in the region is projected to grow at more than twice the national rate for the next few decades, growing from 3.6 million in 2007 to 6.3 million in 2030.

In 2007 and 2008, the region's historically strong economic growth slowed and sales tax revenues fell to 2006 year levels. Due to the strong financial plan established for the 20 mile initial light rail system, the funding for construction and operation of the system is secure.

Despite the recent downturn, increases in population and new home construction have led to increased demands for quality public transportation and improved air quality. Over the last five years, public transportation ridership grew by 26 percent in the region. With the commencement of rail passenger operations in December 2008, the LRT System has added new capacity to the regional transportation system.

With the passage of Proposition 400, and the creation of the Public Transportation Fund, light rail extensions in Mesa, Phoenix and Tempe are in the planning stages which will continue to add capacity to the region's transportation system in the years ahead.

FINANCIAL CONTROLS

Accounting and Administrative Controls

As previously noted, METRO's management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of METRO are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. METRO's internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a sub-recipient of federal financial assistance, METRO is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management and by METRO's independent auditor. As part of METRO's Single Audit, tests were made of the internal control structure and of its compliance with applicable laws and regulations, including those related to federal awards. Although this testing is limited in scope and is not sufficient to support an opinion on METRO's internal control system or its compliance with laws and regulations, the audit for the year ended June 30, 2009, disclosed no material internal control weaknesses or material violations of laws and regulations. The audit of METRO's compliance with requirements applicable to each major program and internal control over compliance resulted in an unqualified opinion of compliance and noted no material weaknesses in internal controls.

Budgetary Systems and Controls

The objective of the budgetary controls maintained by METRO is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Directors. The by-laws require a balanced budget to be adopted by the METRO Board each fiscal year. The level of budgetary control, i.e., the level at which expenditures cannot legally exceed appropriations, is the total operating budget. METRO maintains budgetary control by conducting quarterly evaluations of expenditures against appropriations and through close monitoring of revenues. Encumbrance accounting is not utilized and all appropriations lapse at year-end. As demonstrated by the statements included in the financial section of this report, METRO continues to meet its responsibility for sound financial management.

In addition to the annual budget, METRO also prepares a Five-Year Capital Program and Operating Forecast and the Transit Life Cycle Plan (TLCP) update. The five-year forecast starts with the annual budget information and extends it an additional four years to provide information about the anticipated schedule, costs, and revenues. The TLCP gives a longer term perspective by outlining the sources and uses of funds for specific capital projects and the corresponding costs and funding to operate each project out through fiscal year 2025.

For each major capital project, METRO regularly reports the project budget status to the Board showing by project element the engineering baseline cost estimate (BCE) or Full Funding Grant Agreement (FFGA) budget amount versus commitments, actual expenditures, and forecasted cost at completion. METRO evaluates project contractual costs and estimates the cost at completion as part of the regular project reporting process. Should anticipated contractual costs appear to exceed the Board approved contingency, METRO staff will seek Board action to allocate additional contingency to the contract either by transfer from the project reserve or by transfer from other project elements where the work to be contracted is currently budgeted within the baseline cost

estimate. Significant issues impacting cost versus budget are addressed in the narrative reports included in the monthly project progress report submitted to the Board in advance of each regular board meeting.

With the commencement of passenger operations in December 2008, METRO has continued to refine detailed cost estimates for manpower, contracted costs, utilities and insurance to construct the FY 2010 budget. Analysis and comparisons of METRO's planned costs to peer city light rail systems have been conducted. Actual costs are tracked against budget and reported to Member Cities on a monthly basis with significant variances analyzed and communicated. Member Cities fund the cost of the operations based upon the ratio of route miles in operation within each jurisdiction.

With respect to fare revenues, METRO has engaged an armored car service contractor to pick up fare payments deposited by customers in the fare vending machines. The armored car service deposits daily collections into the City of Phoenix regional fare revenue depository. METRO works in collaboration with the City of Phoenix to compute and distribute fare revenues to the Member Cities.

MAJOR INITIATIVES

Design and Construction of Light Rail

METRO currently oversees the Central Phoenix/East Valley Light Rail Transit (CP/EV LRT) Project, funded by Section 5309 New Starts program, and the Northwest Extension, the first LRT extension which is in pre-construction design and procurement. Due to the economic downturn, the Northwest Extension project construction activities have been suspended pending availability of funds from the City of Phoenix.

Central Phoenix/East Valley Light Rail Transit (CP/EV LRT) Project

The CP/EV LRT project is a 19.6 mile LRT System that connects north central Phoenix, Tempe, and Mesa. The Project was identified as the Minimum Operable Segment of the Locally Preferred Alternative selected in the Central Phoenix/East Valley Major Investment Study completed in 1998. As the initial starter segment, the CP/EV LRT project extends from 19th Avenue and Bethany Home Road in Phoenix to Main and Sycamore Road in Mesa. Phoenix, Tempe, and Mesa share responsibility for funding the non-federal share of capital costs and the on-going operations and maintenance (O&M) costs of the project. The CP/EV LRT project complements existing and proposed bus services to be implemented by Phoenix, Tempe, and Mesa. Construction of the project began in FY 2005 and was completed on-time with passenger operations commencing on December 27th 2008.

The capital project is currently in close-out phase. Major activities include management of warranty, settlement of contractor milestone payments and change order issues, satisfaction of Federal Transit Administration requirements and collection of final federal grant payments.

METRO's light rail Grand Opening was held December 27th and 28th 2008, with over 150,000 estimated riders. Revenue operations commenced January 1st 2009 providing service from 5AM to 11PM seven days a week. Weekday riders have access to trains every 10 minutes from 6AM to 7PM. Weekend and off-peak weekday service frequencies range from 15 to 20 minutes.

Northwest Extension LRT Project

The Northwest Extension is a 4.6 mile light rail project starting at the northwest termination point of the Central Phoenix/East Valley Light Rail project. The project follows 19th Avenue to Dunlap Avenue, then west on Dunlap Avenue to 25th Avenue and then runs on 25th Avenue to Mountain View Road. In March 2007 the Phoenix City Council approved an initial 3.2 mile phase to be locally funded, without federal funding support. With the economic downturn, construction of the first phase, which includes the 19th Avenue to Dunlap portion of the project, has been suspended pending availability of funding. Real estate acquisition for the project is continuing in preparation for future construction.

During FY 2007 advanced conceptual engineering was completed and a draft Environmental Impact Statement (EIS) was prepared. In July of 2007, an engineering services consultant was secured by METRO and a notice to proceed was issued to commence final design. In September 2007 a construction manager commenced work on pre-construction activities to maximize design-build coordination. During FY 2007-2008, the City of Phoenix commenced acquisition of real property for the 3.2 mile alignment. During FY 2008-2009, real estate acquisition continued and design work was completed.

Funding Milestones

On November 2, 2004, the voters of Maricopa County approved Proposition 400, the continuation of the transportation tax, for a twenty year period, beginning in calendar year 2006. The approximate total vote in favor was 57.5%. This is a major milestone in transportation funding and service in the region. The Proposition had unanimous support from the Mayors of all of the cities in the region and the Maricopa County Board of Supervisors, the Maricopa Association of Governments Regional Council, and the Arizona Department of Transportation. This initiative is forecasted to generate \$1.9 billion (Year of expenditure) in revenue over the 20 year period to fund construction of an additional 27 miles of light rail extensions.

On January 24, 2005, the Federal Transit Administration awarded the \$587 million Full Funding Grant Agreement (FFGA) to the City of Phoenix for the 20 mile CP/EV LRT Project. In November 2005, the Phoenix City Council approved a Grant Pass-thru Agreement whereby METRO is the Subrecipient for the \$587 million FFGA. In January 2006, METRO received and disbursed \$77.4 million in Federal Fiscal year 2005 grant funds to the member cities.

On August 10, 2005, President Bush signed into law the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users. (SAFETEA-LU) For Arizona, this legislation included over \$600 million in transportation funding for federal fiscal year 2006. In August 2009, METRO received and disbursed \$90.9 million of the FFGA section 5309 funding. In addition, under the American Recovery and Reinvestment Act (ARRA), METRO received and dispersed \$36.0 million of the FFGA 5309 funding, bringing the total funding received to \$526.0 million with \$61.2 million remaining to be received. It is anticipated that the planned \$61.2 million FY 2010 appropriation will be approved by the Congress to fully complete the Full Funding Grant payment schedule.

In March 2006, METRO began to receive funds from the Public Transportation Fund. Initial funds were used for the relocation of non-prior rights utilities impacted by LRT construction. In August 2006, the Regional Public Transportation Authority (RPTA) and METRO executed the LRT Program Agreement. Under the agreement, RPTA designates METRO as the Lead Agency to plan, design, and construct the LRT program as defined by the Maricopa Association of Governments Regional Transportation Plan. As of June 30, 2009, \$172.3 million of Public Transportation Funds have been received by METRO.

In December 2007, the Phoenix City Council approved \$34.7 million to fund pre-construction activities for the Northwest Extension. This approval brings the total funding approved by the City of Phoenix to \$46.8 million for the Northwest Light Rail Extension Project. In July 2009, in response to reductions in sales tax revenues, the Council took action to suspend construction activities pending availability of funds.

In June 2009, the Regional Public Transportation Authority (RPTA) issued Transportation Excise Tax Revenue Bonds in the amount of \$100,075,000. A portion of the bonds will pay or reimburse LRT capital expenditures as designated in the Regional Transportation Plan.

Other Information

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Metro Rail, Inc. for its comprehensive annual financial report for the fiscal year ended June 30, 2008. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine eligibility for another certificate.

Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated services of METRO's Finance staff. As always, we are appreciative of the support provided by the Board of Directors.

Respectfully submitted,



Stephen R. Banta
Chief Executive Officer



John P. McCormack
Director of Finance and Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Valley Metro Rail, Inc.
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



A handwritten signature in black ink, appearing to read "M. L. R. R.", positioned above the title "President".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer", positioned above the title "Executive Director".

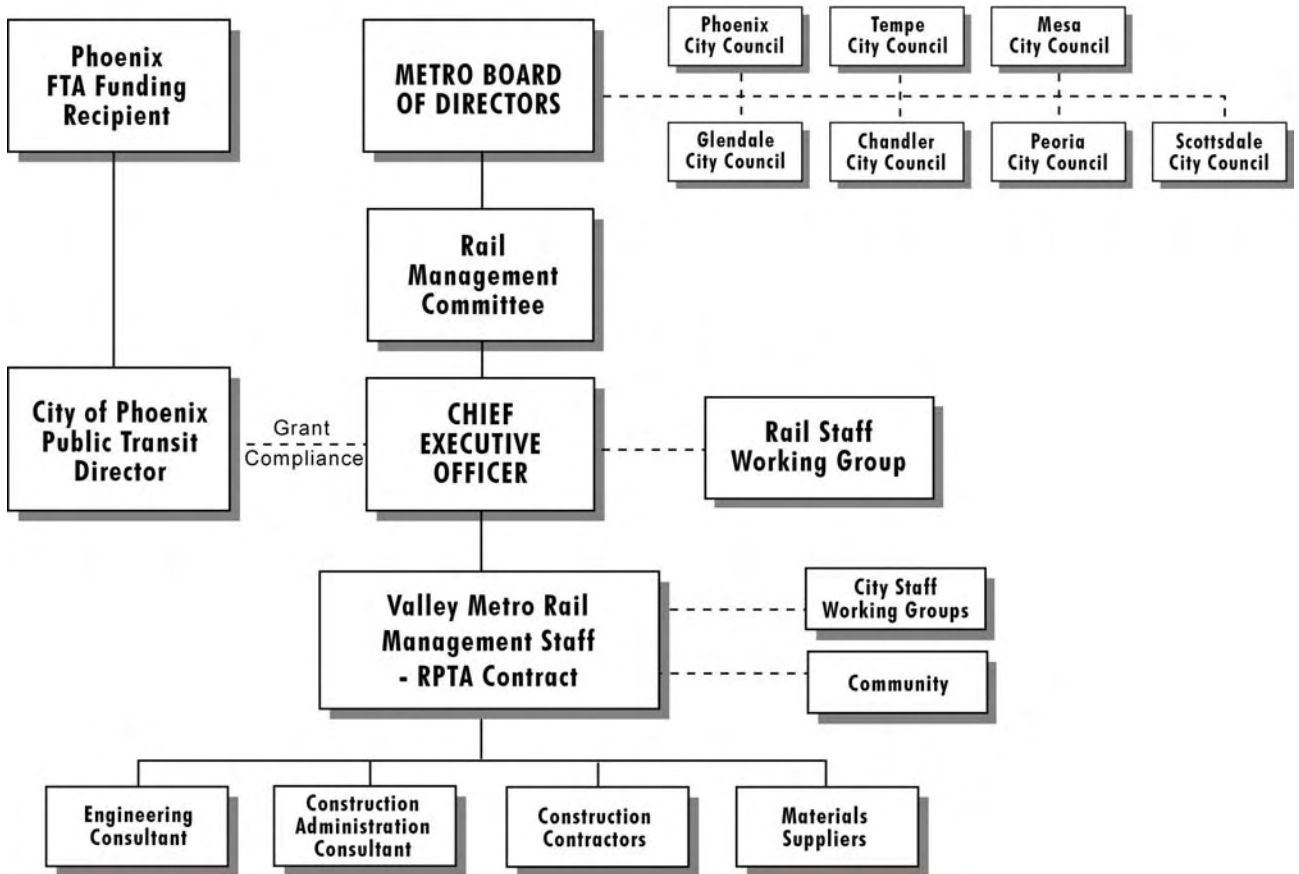
Executive Director



ASU students boarding train

VALLEY METRO RAIL, INC.
Policy Organizational Chart
Fiscal Year Ended June 30, 2009

METRO POLICY ORGANIZATION



VALLEY METRO RAIL, INC.
List of Appointed Officials
Fiscal Year Ended June 30, 2009

Board of Directors

Board Chairman	Councilman Tom Simplot, Phoenix
Board Member	Mayor Hugh Hallman, Tempe
Board Member	Mayor Scott Smith, Mesa
Board Member	Mayor Elaine Scruggs, Glendale
Board Member	Mayor Boyd Dunn, Chandler
Board Member	Mayor Bob Barrett, Peoria
Board Member	Mayor Mary Manross, Scottsdale

Executive Management Team

Chief Executive Officer	Richard J. Simonetta
Director, Design & Construction	Brian Buchanan
Director, Safety, Security, and Quality Assurance	Larry Engleman
Director, Community Relations	John Farry
Director, Project Development	Wulf Grote
Director, Operations & Maintenance	Jay Harper
General Counsel	Mike Ladino
Director, Finance & Administration	John McCormack



FINANCIAL SECTION

The Financial Section includes the independent auditor's report, Management's Discussion and Analysis (MD&A), the basic financial statements, notes to the basic financial statements and other financial schedules.



Super Motor Cross Event at Chase Field

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors
Valley Metro Rail, Inc.

We have audited the accompanying financial statements of the business-type activities of Valley Metro Rail, Inc. (METRO) as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of Valley Metro Rail, Inc.'s 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Valley Metro Rail, Inc., as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof 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 January 28, 2010 on our consideration of Valley Metro Rail, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Members of the Board of Directors
Valley Metro Rail, Inc.

The management's discussion and analysis on pages 3-8 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise METRO's basic financial statements. The introductory section, other supplementary information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary has been subject subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
January 28, 2010

As management of Valley Metro Rail, Inc. (METRO), we offer this narrative overview and analysis of the financial activities of METRO for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii – viii of this report. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of METRO's financial activity, (3) identify changes in METRO's financial position, (4) identify any material deviations from the financial plan (adopted annual budget), and (5) identify other issues or concerns.

Financial Highlights

- METRO's total net assets increased \$104.3 million in FY 2009. Total net assets for METRO were \$1,187.9 million at June 30, 2009.
- With the commencement of rail passenger operations, METRO's primary organizational focus has transformed from construction activities to transportation operation activities. The financial statement presentation in fiscal year 2009 reflects this change, with capital construction revenues and expenses now reporting to non-operating activities. In consideration of the fact that the newly completed light rail construction project (\$1.4 billion) was one of the largest in Arizona state history, it is to be expected that operational revenues and expenses will drop sharply with the cessation of construction and the commencement of passenger service delivery.
- METRO's operating revenues for FY 2009 were \$16.9 million, a decrease of approximately \$185.6 million from the prior period. Operating revenues consisted of contributions from METRO member cities (\$13.5 million) and passenger fares (\$3.4 million).
- Non-Operating expenses: With the reporting change this year of capital revenues and expenses to non-operating activities, this year's non-operating revenues/expenses report a net \$20.1 million decrease in net assets, primarily distributions to Member Cities to reimburse construction expenditures.
- Capital contributions totaled \$150.9 million, an increase of approximately \$20.4 million from the prior period. Capital contributions consisted of Member City Contributions of \$25.4 million, Public Transportation Funds of \$52.6 and Federal Transit Administration Capital Grants totaling \$72.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

METRO's financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP requires that the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A). The financial section of the Comprehensive Annual Financial Report (CAFR) for METRO consists of this discussion and analysis and the basic financial statements. This report also contains other supplementary schedules presented after the basic financial statements. METRO's basic financial statements include a statement of net assets; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and the notes to the financial statements. METRO's financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB).

Fund Financial Statements – METRO is presented as an enterprise fund. Enterprise funds are used for activities that primarily serve customers outside the governmental unit. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or conditions. Funds are used to ensure and demonstrate compliance with finance-related legal requirements as well as for managerial control to demonstrate fiduciary responsibility over the assets of METRO.

The *statement of net assets* presents information on all of METRO's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of METRO is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information showing how the agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected grant revenues).

Notes to the Financial Statements – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and should be read with the financial statements. The notes can be found beginning on page 12.

Enterprise Operations – METRO was formed in October 2002 by the cities of Glendale, Mesa, Phoenix and Tempe as a public nonprofit corporation to manage design, construction and operation of the Light Rail Transit (LRT) System within the Metropolitan Area. The cities of Chandler and Peoria became the fifth and sixth contributing member cities in April and July of 2007 respectively, and the city of Scottsdale became the seventh member in April of 2008. The member cities pay for their share of METRO's operating expenses based on expense allocation methods approved in the by-laws of METRO. See Note 1 for a summary of METRO's significant accounting policies.

FINANCIAL ANALYSIS OF METRO

The following tables and analysis discuss the financial position and changes to the financial position for METRO as a whole as of and for the year ended June 30, 2009, with comparative information for the previous period.

Net Assets – Net assets may serve over time as a useful indicator of METRO's financial position. The following table reflects the condensed Statement of Net Assets as of June 30, 2009, compared to the prior period.

	2009	2008	Change	Percent Change
Current assets	\$ 159,051,762	\$ 247,783,659	\$ (88,731,897)	-35.8%
Noncurrent assets	1,221,349,623	1,083,561,843	137,787,780	12.7%
Total assets	1,380,401,385	1,331,345,502	49,055,883	3.7%
Current Liabilities	148,135,746	247,609,942	(99,474,196)	-40.2%
Noncurrent Liabilities	44,408,973	173,717	44,235,256	25464.0%
Total liabilities	192,544,719	247,783,659	(55,238,940)	-22.3%
Invested in Capital Assets, net of related debt	1,181,254,415	1,083,561,843	97,692,572	9.0%
Unrestricted	6,602,253	-	6,602,253	100.0%
Total Net Assets	\$ 1,187,856,666	\$ 1,083,561,843	\$ 104,294,823	9.6%

Valley Metro Rail, Inc.
Management's Discussion and Analysis (Continued)

Total net assets represent the sum of METRO's unrestricted net assets plus investment in capital assets net of accumulated depreciation. The largest portions of the investment are capital assets for the Central Phoenix /East Valley Light Rail Transit Project (CP/EV LRT). At the mid-point of the fiscal year, METRO placed these capital assets into service for operation of the light rail transit system and in day-to-day operations of METRO. It is not METRO's intention to sell these assets and they are therefore not available for future spending. Net assets increased \$104.3 million largely due to construction progress on the system during the year funded through capital grants, PTF funds and member city deposits.

Changes in Net Assets

Total operating revenues, which consist of Contributions from Member Cities, Fare Revenues, and Other Revenues (advertising), decreased \$185.6 million: Member City contributions were reduced by \$129.8 million and Public Transportation Funds decreased by \$58.3 million. This revenue decrease is directly related to the decrease in construction activities planned for the initial 20-mile LRT line, which commenced passenger operating service in January 2009.

Operating expenses increased by \$20.0 million to \$43.4 million: The first six months of Passenger Operations generated \$15.7 million in new expenditures. Administrative expenditures totaled \$5.3 million compared with \$5.4 million in the prior year. With the deployment of the LRT system, depreciation expense increased by \$20.2 million over the prior period.

Capital contributions, which consist of Member City Contributions, FTA capital grants and Public Transportation Funds, increased \$20.4 million. The following table compares the revenues and expenses of METRO for the current fiscal year and the previous period.

VMR's Changes in Net Assets
Fiscal year ended June 30, 2009 and 2008

	2009	2008	Change
Operating revenues:			
Contributions from Member Cities	\$ 13,490,504	\$ 143,276,140	\$ (129,785,636)
Passenger Fares	3,371,104	-	3,371,104
FTA Operating Grants	-	953,877	(953,877)
Public Transportation Funds	-	58,315,376	(58,315,376)
Other Revenues	40,000	-	40,000
Operating revenues	<u>16,901,608</u>	<u>202,545,393</u>	<u>(185,643,785)</u>
Operating expenses:			
Administrative	5,278,901	5,396,474	(117,573)
Passenger Operations Service	15,678,389	-	15,678,389
Private Utilities Relocations	-	15,750,886	(15,750,886)
Depreciation	22,437,891	2,231,538	20,206,353
Operating expenses	<u>43,395,181</u>	<u>23,378,898</u>	<u>20,016,283</u>
Operating income (loss)	(26,493,573)	179,166,495	(205,660,068)
Non-operating revenues (expense)	<u>(20,085,202)</u>	<u>91,519</u>	<u>(20,176,721)</u>
Deficiency before Capital Contributions	(46,578,775)	179,258,014	(225,836,789)
Capital Contributions	150,873,598	130,496,339	20,377,259
Increase in Net Assets	<u>104,294,823</u>	<u>309,754,353</u>	<u>(205,459,530)</u>
Net assets, July 1	<u>1,083,561,843</u>	<u>773,807,490</u>	<u>309,754,353</u>
Net assets, June 30	<u>\$ 1,187,856,666</u>	<u>\$ 1,083,561,843</u>	<u>\$ 104,294,823</u>

Valley Metro Rail, Inc.
Management's Discussion and Analysis (Continued)

With the transformation of operating expense reporting, with certain construction related expenditures and revenues now reporting to Non-operating activities, an analysis of specific account changes may be useful. The table below illustrates key account activities for the comparable periods:

Comparison of Revenue and Expense Accounts
Fiscal year ended June 30, 2009 and 2008

	2009	2008	Change
Revenues:			
Contributions from Member Cities (Operations)	\$ 13,490,504		
Contributions from Member Cities (Capital)	25,381,955		
Contributions from Member Cities	<u>38,872,459</u>	143,276,140	(104,403,681)
Federal Transit Administration Operating Grants	650,492	953,877	(303,385)
Public Transportation Funds (Operations)	10,945,204		
Public Transportation Funds (Capital)	52,627,944		
Public Transportation Funds	<u>63,573,148</u>	<u>58,315,376</u>	<u>5,257,772</u>
Operating Revenues (FY 08 reporting basis)		\$ 202,545,393	\$ (99,449,294)
Other Revenues	-	\$ 91,519	\$ (91,519)
Expenses:			
Distributions to Member Cities	\$ 20,078,532	-	20,078,532
Private Utilities Relocations	9,518,863	15,750,886	(6,232,023)
Interest on Capital Lease Obligation	2,083,503	-	2,083,503
Non-Operating Expenses (FY 09 Reporting basis)	\$ 31,680,898	\$ 15,750,886	\$ 15,930,012

Contributions from Member Cities were down \$104.4 million primarily due to reduced construction funding requirements for the 20 mile CPEV LRT project.

FTA operating grants were down due to completion of the eligible work under the grant. In 2008, the Public Transportation Funds (PTF) received were reported on a combined basis with capital funding included into operations revenue. This year, PTF funds dedicated to capital project expenditures are shown as capital contributions. Overall PTF funds were up by \$5.3 million over the prior year.

Distributions to Member Cities report the net capital project cost reimbursements in excess of capital contributions for the initial 20-mile LRT line. Under the Design and Construction project agreements, the Member Cities provide project funding to METRO as expenditures are incurred. As federal and regional funding for the capital project is received by METRO, the members receive cash distributions to reimburse the prior expenditures. Net reimbursements for the year totaled \$20.1 million.

Private utility relocation expenditures are for construction activities which are reported in fiscal year 2009 as non operating expenses. Relocation expenditures are down from \$15.8 to \$9.5 million due to the wrap up of construction for the 20 mile LRT system.

Acceptance and deployment of 14 light rail vehicles during the fiscal year triggered interest expense of \$2.1 million. Under the lease obligation, no expense was incurred in FY 2008.

CAPITAL ASSETS AND LONG TERM DEBT

Capital Assets:

The following table provides a breakdown of capital assets of METRO at June 30, 2009, with comparative information for the previous period. Additional information on METRO's capital assets may be found in Note 6.

**VMR's Capital Assets, Net of Depreciation
As of June 30, 2009 and 2008**

	2009	2008	Change
Buildings	\$ 97,611,148	\$ 67,108,795	\$ 30,502,353
Guideway	545,989,800	-	545,989,800
Bridges	60,491,115	-	60,491,115
Operation Control Center	11,536,240	-	11,536,240
Passenger Stations & Facilities	96,272,225	-	96,272,225
Park and Ride Facilities	34,769,334	-	34,769,334
Electric Power Substations	86,707,115	-	86,707,115
Signal and Communication System	45,202,398	-	45,202,398
Computers & software	574,791	852,789	(277,998)
Furniture & fixtures	531,100	692,090	(160,990)
Revenue Vehicles	204,127,101	116,875,456	87,251,645
Support/Service Vehicles	587,896	646,471	(58,575)
Non-Revenue Vehicles	958,053	209,605	748,448
Equipment	8,214,895	1,222,755	6,992,140
Construction in Progress	27,776,412	895,953,882	(868,177,470)
Net Capital Assets	\$ 1,221,349,623	\$ 1,083,561,843	\$ 137,787,780

As of June 30, 2009, METRO had \$1,221.3 million invested in capital assets, net of accumulated depreciation. There was a net increase in capital assets, net of accumulated depreciation, of \$137.8 million from June 30, 2008; primarily resulting from the continuing acquisition of equipment and vehicles, the placement into service of the Light Rail System infrastructure with a corresponding reduction to Construction in Progress, and a depreciation charge of \$22.4 million.

Long Term Debt:

During fiscal year 2009, METRO (as Lessee) completed the process of formally accepting 14 Light Rail Vehicles (LRV's) under the terms of a Master Lease/Purchase Financing Agreement dated March 3, 2006, with the City of Phoenix (as Lessor). Under the agreement, the City financed the purchase of the vehicles with payments due from METRO commencing in 2011. The capital lease obligation at June 30, 2009 includes \$42,186,000 principal and \$2,083,503 accrued interest totaling \$44,269,503. Refer to Note 9 on page 19 for more information regarding the lease.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

METRO's adopted fiscal year 2010 total operating and capital budget is \$192.6 million, down \$66.6 million from fiscal year 2009's Budget. The primary cause for the decrease is within the capital budget, due to the planned reduction of construction activities and expenditures for the 20 mile CPEV LRT Project (METRO Initial Segment). On the operating side, METRO's FY10 budget is up with the first full year of passenger revenue operations in FY 2010 versus the inaugural six months of revenue operations in FY 2009.

**Comparison of Annual Expenditure Budgets
 Fiscal Year 2010 vs. 2009**

Uses of Funds	FY 2010 Adopted (\$,000)	FY 2009 Amended (\$,000)	Change (\$,000)
Capital Projects:			
20-Mile METRO Initial Segment	39,886	151,614	(111,728)
Northwest Extension	83,268	42,226	41,042
Non-Prior Rights Utilities Relocations	15,816	16,290	(474)
Other Capital Projects:			
Central Mesa Extension	927	-	927
South Tempe Extension	939	-	939
I-10 West Extension	971	-	971
CNPAs - 20-Mile Initial Segment	1,012	16,085	(15,073)
14 LRV's	2,229	7,142	(4,913)
	<u>145,047</u>	<u>233,358</u>	<u>(88,311)</u>
Operating Projects:			
Revenue Operations	33,733	15,762	17,971
Future Project Development	12,798	8,863	3,935
Agency Operating Budget	982	1,217	(236)
	<u>47,513</u>	<u>25,843</u>	<u>21,670</u>
Total Uses of Funds	<u>192,560</u>	<u>259,201</u>	<u>(66,641)</u>

Due to current economic conditions, sales tax revenue collections are down causing funding limitations for the Northwest Extension capital project. In July 2009, the Phoenix City Council acted to suspend construction funding for the Northwest Extension project pending availability of funds. METRO worked with the Member Cities to reduce the FY 2010 capital expenditure and funding budgets in accord with the reduction of construction activities.

FINANCIAL CONTACT

The financial report is designed to provide a general overview of METRO's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to METRO's Director of Finance and Administration, Valley Metro Rail, 101 North 1st Avenue, Suite 1300, Phoenix, Arizona 85003.

BASIC FINANCIAL STATEMENTS



Valley Metro Rail, Inc.

Statement of Net Assets

June 30, 2009

Assets

Current Assets

Cash and Investments	\$	6,995,518
Receivables, Net		473,252
Due from Other Governments		137,790,315
Inventory		10,958,640
Restricted Assets		2,090,792
Other Assets		743,245
Total Current Assets		<u>159,051,762</u>

Noncurrent Assets

Capital Assets, not being depreciated		27,776,412
Capital Assets, net of accumulated depreciation		<u>1,193,573,211</u>
Total Noncurrent Assets		<u>1,221,349,623</u>
Total Assets and Other Debits		<u>1,380,401,385</u>

Liabilities

Current Liabilities:

Accounts Payable		19,100,909
Labor Compliance Withholding		18,194
Compensated Absences		593,770
Due to Other Governments		374,160
Unearned Revenue		1,581,474
Member Cities Deposits		<u>126,467,239</u>
		148,135,746

Noncurrent Liabilities:

Compensated Absences		139,470
Capital Lease Obligation		42,186,000
Interest payable		<u>2,083,503</u>
Total Liabilities and Other Credits		<u>192,544,719</u>

Net Assets

Invested in Capital Assets, Net of Related Debt		1,181,254,415
Unrestricted		<u>6,602,251</u>
Total Net Assets	\$	<u>1,187,856,666</u>

Valley Metro Rail, Inc.Statement of Revenues, Expenses, and Changes in Fund Net Assets
Fiscal Year Ended June 30, 2009**Operating Revenues:**

Contributions from Member Cities	\$ 13,490,504
Passenger Fares	3,371,104
Other Revenues	40,000
Total Operating Revenues	<u>16,901,608</u>

Operating Expenses:

Administrative	5,278,901
Passenger Operations Service	15,678,389
Depreciation	22,437,891
Total Operating Expenses	<u>43,395,181</u>

Operating income (26,493,573)**Non-Operating Revenue / (Expense):**

Federal Transit Administration Operating Grants	650,492
Public Transportation Funds	10,945,204
Distributions to Member Cities	(20,078,532)
Private Utilities Relocations	(9,518,863)
Interest on Capital Lease Obligation	(2,083,503)
Total Non-Operating Revenue / (Expense):	<u>(20,085,202)</u>

Deficiency Revenues under Expenses (46,578,775)**Capital Contributions:**

Capital Contributions from Member Cities	25,381,955
Public Transportation Funds Capital	52,627,944
Federal Transit Administration Capital Grants	72,863,699
Total Capital Contributions:	<u>150,873,598</u>

Changes in Net Assets 104,294,823**Net Assets, Beginning of Period** 1,083,561,843**Net Assets, End of Period** \$ 1,187,856,666

Valley Metro Rail, Inc.

Statement of Cash Flows

Fiscal Year Ended June 30, 2009

Cash Flows from Operating Activities

Receipts from Member Cities	\$ 13,513,578
Receipts from Maricopa Association of Governments - RARF	480,263
Receipts from Fare Revenues	3,371,104
Other Revenues	40,000
Payments to Suppliers	(19,425,115)
Net Cash Used in Operating Activities	<u>(2,020,170)</u>

Cash Flows from Non-Capital Financing Activities

Receipts from Maricopa Association of Governments - Federal	650,492
Receipts from Regional Public Transit Authority	9,958,629
Payments for Private Utility Relocations	(7,937,055)
Other Non-Operating Expenses	(1,581,809)
Net Cash Provided by Non-Capital Financing Activities	<u>1,090,257</u>

Cash Flows from Capital and Related Financing Activities

Capital Contributions from Member Cities	35,281,219
Distributions to Member Cities	(20,078,532)
Receipts from FTA Capital Grants	95,159,216
Receipts from Regional PTF for Capital	39,739,382
Capital Lease Funding	42,186,000
Payments for Inventory	(10,958,640)
Payments for Capital Assets	(174,044,429)
Net Cash Provided by Capital and Related Financing Activities	<u>7,284,216</u>

Net Increase in Cash and Cash Equivalents 6,354,303

Cash and Cash Equivalents, Beginning of Year 641,215

Cash and Cash Equivalents, End of Year \$ 6,995,518

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income	\$ (26,493,573)
Adjustments to Reconcile Operating Income to Net Cash Used in Operating Activities:	
Depreciation	22,437,892
(Increase) Decrease in Assets:	
Accounts Receivable	(101,587)
Due from Other Governments	(1,100,678)
Other Assets	(626,621)
Increase (Decrease) in Liabilities:	
Accounts Payable	3,648,625
Compensated Absences	129,024
Labor Compliance Withholding	10,826
Due to Other Governments	38,583
Unearned Revenue	14,265
Member Cities' Deposits	23,073

Net Cash Used in Operating Activities \$ (2,020,170)

1. **Summary of Significant Accounting Policies**

The accounting policies of Valley Metro Rail, Inc. (METRO) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

a. **Financial Reporting Entity**

In October 2002, the city councils of Glendale, Mesa, Phoenix and Tempe approved the formation of a public nonprofit corporation by the name of Valley Metro Rail, Inc. The nonprofit corporation was organized under A.R.S. 11-952 and 40-1152. The initial members entered into a Joint Powers Agreement which provides that this Corporation be organized as the instrumentality to plan, design, construct, and operate the Light Rail Transit Project ("LRT"). Prior to October 2002, the Regional Public Transportation Authority (RPTA) performed these roles.

METRO contracts with the RPTA for certain administrative functions, including personnel, HR administration, and computer support services. All METRO staff is hired and employed by RPTA but works solely under the direction of Valley Metro Rail, Inc., and its Board of Directors, through a contractual arrangement with RPTA.

The Board of Directors of METRO is solely responsible for the governance of LRT and METRO is not a component unit of RPTA; economic resources received by METRO are entirely for the direct benefit of METRO, and RPTA is not entitled to and has no ability to otherwise access any of the economic resources received or held by METRO.

b. **Basic Financial Statements**

These financial statements are presented in accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB No. 34). METRO is engaged only in business-type activities and is required to present the financial statements required for enterprise funds which are part of proprietary funds. METRO does not report any component units.

c. **Basis of Presentation**

Proprietary funds account for activities of METRO similar to those found in the private sector, where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The focus of proprietary fund measurement is upon the determination of operating income, changes in net assets, financial position and cash flows. Currently, enterprise funds are the only type of proprietary fund that METRO uses.

d. **Measurement Focus and Basis of Accounting**

The Statement of net assets and statement of revenues, expenses and changes in fund net assets are reported using the flow of economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility

requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency, which may result in disallowance in subsequent periods.

All of METRO's activities are accounted for in a single proprietary or business-type fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connecting with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as either non-operating revenues and expenses or capital contributions.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments have the option of following subsequent private-sector guidance for the business-type activities, subject to this same limitation. METRO has elected not to follow subsequent private-sector guidance.

e. Cash and Investments

State statutes authorize METRO to invest in obligations of the U.S. Treasury and any of its agencies, corporations or instrumentalities, collateralized repurchase agreements, and certificates of deposit. METRO's investments are stated at fair value. Fair value is based on quoted market prices as of the valuation date.

METRO considers short-term investments in mutual fund-money markets, U.S. Treasury bills and notes with maturities of three months or less at acquisition date to be cash equivalents.

f. Receivables

Management analyzes receivables periodically to determine the adequacy of the allowance for doubtful accounts. There is no current provision required for possible bad debts.

g. Inventory and Prepaid items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the average cost method. Inventories are expensed when the resources are used.

h. Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. METRO changed its individual asset capitalization threshold from \$1,000 to \$5,000 as of July 1, 2005.

Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation.

METRO capitalizes all costs incurred in connection with the construction of the Central Phoenix/East Valley (CP/EV) 20-mile alignment. The costs for the non-federal agency operating and the initial planning costs of additional extensions are recorded as annual operating expenses.

METRO is not the legal owner of any land. The land required for the LRT system is acquired and owned by the Member Cities and is the subject of a long-term use agreement between each City and METRO. Land, subject to the above agreement, is recorded on the books of member cities. At year-end, the value of land acquisitions recorded by the member cities and subject to the use agreements was \$133.4 million. Land costs are eligible for FTA Section 5309 reimbursement and are included in METRO's grant requests for reimbursements from the FTA.

The costs included as construction in progress consist primarily of project administration, engineering, construction management, utilities relocation, facility construction, equipment procurement, and other costs related to construction. No depreciation is provided on construction in progress until construction is completed and the assets are placed in service.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Life (Years)</u>
Buildings	40
Guideway	50
Bridges	30
Operation Control Center	30
Passenger Stations	30
Park and Ride Facilities	15
Electric Power Substations	25
Signal Substations	20
Revenue Vehicles	25
Equipment	7-15
Furniture and fixtures	7-15
Pooled vehicles	4
Computers and software	3

i. Allocation of Costs to Member Cities

Design and construction costs to be paid during the fiscal year are allocated to the member cities as follows:

- i) Regional design and construction costs are allocated based upon the Design and Construction Miles percentage method as stated in the bylaws of the corporation. The components of the LRT that are currently classified as "regional" are light rail vehicles, the maintenance and storage facility, operations control center, bridge structures, and regional park and ride lots.

- ii) Local design and construction costs are allocated to the member cities within whose boundaries the LRT Component designed or constructed will be located. Design and construction costs that are not classified as regional are deemed to be local.
- iii) Under the Design and Construction project agreements, the Member Cities provide project funding to METRO as expenditures are incurred. As federal and regional funding for the capital project is received by METRO, the members receive cash distributions to reimburse the prior expenditures.

If a member city's share of the LRT costs for a fiscal year is determined to be less than \$50,000, such member city's share of the LRT costs shall be \$50,000. The purpose of the Minimum Cost is so that all member cities will contribute to payment of the overhead expense of the Corporation for matters such as the cost of meetings of the Board of Directors, administrative support to the Board of Directors, and support to member cities by the Rail Program Staff.

j. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting financial period. Actual results could differ from these estimates.

k. Net Assets

METRO's net assets consist of unrestricted net assets and net assets invested in capital assets.

2. Budgetary Basis of Accounting

An annual budget of revenues and expenses is prepared and adopted by the Board of Directors each fiscal year. The legal level of budgetary control is the total annual appropriated budget. The annual budget is adopted on the modified accrual basis. Encumbrance accounting is not used and all appropriations lapse at year end. Depreciation expense is not included in the annual budget. Prior to final adoption, a proposed budget is presented to the Board of Directors for review and public comment is received. Final adoption of the budget must be on or before June 30 of each year.

During the fiscal year, the Board of Directors modified the original budget. A schedule of operations versus original budget, final budget, and actual is presented as supplementary information. See Page 24.

3. Cash and Investments

Cash deposits and investments at June 30, 2009, consisted of the following:

Cash on hand	\$	158,802
Insurance Trust Fund		50,001
Investments in repurchase agreements		6,786,715
Total cash and investments	\$	<u>6,995,518</u>

METRO has deployed Ticket Vending Machines (TVM's) which contain coin and bill vaults to accommodate the purchase of fares. At June 30, 2009, the total cash contained in the coin and bill vaults totaled \$162,249.

METRO's bank deposits at June 30, 2009, had a carrying value of (3,447) and the bank ledger balance was \$545,120. The difference of \$548,567 represents deposits in transit and outstanding checks. Of the bank balance, \$545,120 was covered by federal depository insurance.

The Self Insurance Reserve Trust Account totaling \$50,001 was covered by collateral held by the pledging financial institution in METRO's name.

Investment balances at June 30, 2009 were as follows:

		<u>Fair Value</u>
Repurchase agreements	\$	6,786,715

Interest Rate Risk. METRO does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. During FY 2009 all investment durations were shorter than 90 days.

Credit Risk. State Statutes authorize METRO to invest in obligations of the U.S. Treasury and any of its agencies, corporations or instrumentalities, collateralized repurchase agreements and certificates of deposit. METRO has no investment policy that would further limit its investment choices. METRO's repurchase agreement did not receive a credit quality rating from a national rating agency.

Concentration of Credit Risk. METRO places no limit on the amount it may invest in any one issuer. Historically, METRO has limited its investments to collateralized repurchase agreements. METRO's repurchase agreement is collateralized by \$6,786,715 in securities held by the pledging financial institution in METRO's name

4. Accounts Receivable and Due From Other Governments

All receivable balances at June 30, 2009 are displayed on the financial statements and are expected to be collected in full; therefore, an allowance for uncollectibles has not been recorded.

Due from other governments consists of Federal receivables (\$108.2 million) due from the City of Phoenix as Grantee of Federal Funds, PTF receivable (\$18.1 million) due from Regional Public Transportation Authority (RPTA), unbilled member cities' contributions (\$11.4 million), and miscellaneous receivables (\$.049 million).

City of Phoenix (Grantee of Federal funds)	\$ 108,200,822
Public Transportation Funding	18,057,786
City of Mesa	259,193
City of Phoenix	9,799,882
City of Tempe	1,369,811
City of Glendale	12,710
Maricopa Association of Governments	42,912
Arizona State University	5,670
Regional Public Transportation Authority	41,529
	<u>\$ 137,790,315</u>

Public Transportation Funding is discussed more fully in Note 16.

The amount due from Regional Public Transportation Authority is discussed more fully in Note 13.

5. Restricted Assets

Certain assets of Valley Metro Rail, Inc. are set aside for repayment due to outside restrictions imposed on those funds. Unspent capital lease proceeds in the amount of \$2,090,792 are set-aside for use in the upcoming fiscal year for the acquisition of spare part accessories for fourteen light rail vehicles which are financed under the lease. The Capital Lease Obligation is discussed in Note 9.

Valley Metro Rail, Inc.
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2009

6. Capital Assets

Capital asset and construction in progress activity for the year ended June 30, 2009 were as follows:

	Balances, July 1, 2008	Increases	Decreases	Balances, June 30, 2009
Nondepreciable assets:				
Construction in progress	\$ 895,953,882	\$ 171,077,226	\$ (1,039,254,696)	\$ 27,776,412
Depreciable assets:				
Buildings	69,874,668	32,657,438	-	102,532,106
Guideway	-	551,504,848	-	551,504,848
Bridges	-	61,516,388	-	61,516,388
Operation Control Center	-	11,731,770	-	11,731,770
Passenger Stations & Facilities	-	97,903,958	-	97,903,958
Park and Ride Facilities	-	35,968,277	-	35,968,277
Electric Power Substations	-	88,476,648	-	88,476,648
Signal and Communication System	-	46,361,434	-	46,361,434
Computers & software	1,155,254	107,087	-	1,262,341
Furniture & fixtures	1,126,927	-	-	1,126,927
Revenue Vehicles	116,875,456	93,802,718	-	210,678,174
Support/Service Vehicles	719,709	-	-	719,709
Non-Revenue Vehicles	282,830	868,364	-	1,151,194
Equipment	1,528,000	7,504,211	-	9,032,211
Total depreciable assets at historical cost	<u>191,562,844</u>	<u>1,028,403,141</u>	<u>-</u>	<u>1,219,965,985</u>
Less accumulated depreciation for:				
Buildings	(2,765,873)	(2,155,085)	-	(4,920,958)
Guideway	-	(5,515,048)	-	(5,515,048)
Bridges	-	(1,025,273)	-	(1,025,273)
Operation Control Center	-	(195,530)	-	(195,530)
Passenger Stations	-	(1,631,733)	-	(1,631,733)
Park and Ride Facilities	-	(1,198,943)	-	(1,198,943)
Electric Power Substations	-	(1,769,533)	-	(1,769,533)
Signal Substations	-	(1,159,036)	-	(1,159,036)
Computers & software	(302,465)	(385,085)	-	(687,550)
Furniture & fixtures	(434,837)	(160,990)	-	(595,827)
Revenue Vehicles	-	(6,551,073)	-	(6,551,073)
Support/Service Vehicles	(73,238)	(58,575)	-	(131,813)
Non-Revenue Vehicles	(73,225)	(119,916)	-	(193,141)
Equipment	(305,245)	(512,071)	-	(817,316)
Total accumulated depreciation	<u>(3,954,883)</u>	<u>(22,437,891)</u>	<u>-</u>	<u>(26,392,774)</u>
Total capital assets being depreciated	187,607,961	1,005,965,250	-	1,193,573,211
Business-type activities capital assets, net	<u>\$ 1,083,561,843</u>	<u>\$ 1,177,042,476</u>	<u>\$ (1,039,254,696)</u>	<u>\$ 1,221,349,623</u>

7. Member Cities' Deposits

The member cities advance monies to cover the federal share and local share of project costs. In addition, unpaid project expenses fundable by member cash deposit contributions are accrued for each city. A summary of member cities' deposits at June 30, 2009 follows:

City of Chandler	\$ 65,264
City of Mesa	9,479,140
City of Peoria	55,074
City of Phoenix	91,635,022
City of Tempe	25,200,163
City of Scottsdale	32,576
	<u>\$ 126,467,239</u>

8. Operating Leases

METRO leases office space under various operating lease agreements. Total rent expenditures for these leases were \$1,193,902 for the fiscal year ended June 30, 2009. Future minimum lease payments under non-cancelable operating leases are:

<u>Operating Leases as of 6-30-09</u> <u>Year Ending June 30</u>	
2010	\$ 1,205,868
2011	1,204,603
2012	1,178,688
2013	1,197,147
2014	1,225,651
Thereafter	<u>2,536,812</u>
	<u>\$ 8,548,769</u>

9. Capital Lease Obligation:

During fiscal year 2009, METRO (as Lessee) completed the process of formally accepting 14 Light Rail Vehicles (LRVs) under the terms of a Master Lease/Purchase Financing Agreement dated March 3, 2006, with the City of Phoenix (as Lessor). The assets acquired through the capital lease are as follows:

Asset:	
Unspent Lease Proceeds	\$ 2,090,792
Revenue Vehicles	40,095,208
Less Accumulated Depreciation	(801,904)
Total	<u>\$ 41,384,096</u>

Amortization expense on the capital lease is included in depreciation expense.

The following table presents the changes in the capital lease obligation for fiscal year 2009:

	<u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>	<u>Amount Due in</u> <u>One Year</u>
Capital Lease Obligation	<u>\$ -</u>	<u>\$ 42,186,000</u>	<u>\$ -</u>	<u>\$ 42,186,000</u>	<u>\$ -</u>

Acceptance of the LRVs commenced the term of this agreement and obligated rent payments totaling approximately \$56,300,000, beginning with the first \$10,000,000 payment due on June 1, 2011.

Schedule of Capital Lease Payable as of 6-30-09

Year ending June 30	Principal	Interest
2010	\$ -	\$ 4,167,007
2011	10,000,000	2,083,504
2012	10,000,000	2,827,876
2013	10,000,000	1,954,759
2015	12,186,000	1,013,886
	<u>\$ 42,186,000</u>	<u>\$ 12,047,032</u>

For Fiscal Year 2009, Capital Lease Interest expense totaling \$2,083,503 was accrued under the Master Lease Agreement. The Capital Lease obligation at June 30, 2009 includes \$42,186,000 principal and \$2,083,503 accrued interest totaling \$44,269,503.

10. Compensated Absences

The following presents the changes in compensated absences for the fiscal year ended June 30, 2009:

	<u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>
Compensated absences	<u>\$ 604,215</u>	<u>603,179</u>	<u>(474,154)</u>	<u>\$ 733,240</u>

The portion of compensated absences payable within one year is \$593,770.

11. Contractual and Other Commitments

METRO has entered into various contractual agreements for engineering services, project management, construction administration, light rail vehicles, construction, operations services, legal services and artists. At June 30, 2009, METRO had outstanding contractual commitments for these services aggregating approximately \$88.5 million. These commitments have not been recorded in the accompanying financial statements. Only the currently payable portions of these contracts have been included in accounts payable in the accompanying financial statements. Subsequent to June 30, 2009, METRO entered into approximately \$1.7 million additional contractual commitments.

<u>Contractor</u>	<u>Commitment</u>	<u>Spent-to-date</u>	<u>Remaining</u>
Parson Brinckerhoffer - Prelim Engineering	\$ 25,054,938	\$ 25,054,938	\$ -
PB Americas, Inc. - Final Design / DSDC	108,240,314	108,108,688	131,626
HDR/S.R. Beard - Program Management	52,000,000	51,323,121	676,879
PBS&J/PGH Wong - Construction Mgmt	57,281,460	57,072,396	209,064
Various - Facilities Construction	544,540,929	539,209,569	5,331,360
Various - System Elements	235,601,608	219,991,864	15,609,744
Various - Public Art Program	6,283,133	5,864,811	418,322
Various - Owner Furnished Materials	33,362,518	33,180,624	181,894
Various - Operations & Maintenance	61,017,099	19,674,892	41,342,207
Various - Misc. Construction & Services	16,324,992	7,168,523	9,156,469
Sundt - NW Ext	2,999,400	767,959	2,231,441
AE Com - NW Ext	14,970,624	12,570,398	2,400,226
Various - Future Extensions	39,708,178	28,901,387	10,806,791
	<u>\$1,197,385,193</u>	<u>\$1,108,889,170</u>	<u>\$88,496,023</u>

12. Risk Management

METRO is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted labor; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. METRO purchases insurance coverage for property, general liability, excess liability, automobile liability, umbrella liability, public entity employment practices liability, public entity management liability, boiler and machinery, crime, inland marine, owner's protective professional indemnity, environmental site protection, contractor's environmental protection and excess liability. In addition, the RPTA purchases workers' compensation, employee life insurance, health and dental insurance coverage for all LRT full-time employees. Settled claims for these risks have never exceeded commercial insurance limits. METRO's environmental site protection, contractors' environmental protection and excess liability policies were purchased in June 2004 for coverage through 2009. See schedule of insurance on page 36.

13. Contingencies

- In December 2008, METRO received a claim from one of its Line Section contractors (Herzog Contracting Corporation "HCC".) in the amount of \$18,682,126 for delays and disruptions to the project allegedly caused by METRO in the period between July 1, 2006 and April 30, 2008. On May 19, 2009 METRO issued a final decision in the matter finding that HCC was entitled to no more than \$2,500,000 for METRO-caused delays and disruptions through April 8, 2009 (the date the project was completed).

The HCC claim involves complex questions of fact and law. After receiving a preliminary, independent analysis METRO believes that the HCC claim is without substantial merit. Settlement of the claim is to be funded by previously committed federal and member city funding sources. METRO believes that the further processing of the claim will not have a material effect on METRO's financial affairs.

- As a subrecipient of federal grant monies, amounts passed through or receivable from other agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although METRO expects such amounts, if any, to be immaterial.
- Prior to the incorporation of METRO in October 2002, the RPTA made investment decisions on behalf of METRO. On November 22, 2002, the Arizona State Treasurer's Office informed participants in the Local Government Investment Pool (LGIP) that it currently holds asset-backed securities administered by National Century Financial Enterprises (NCFE). These securities, which total approximately \$131 million of the total \$4 billion in the LGIP, are backed by payments from Medicare/Medicaid and other creditworthy issuers. RPTA's proportional share of the \$131 million was \$223,150, of which \$88,791 is invested on behalf of METRO. NCFE has filed bankruptcy and is under investigation by the Federal Bureau of Investigation and the Securities and Exchange Commission. RPTA has joined in a

lawsuit with 93 other Arizona governmental entities and 90 other plaintiffs against several parties in an effort to recover the investment.

No collections were received from the NCFE receivable during fiscal year ended June 30, 2009. The \$41,529 receivable is recorded as due from other governments with an offsetting reserve of (\$41,529) recorded to due to other governments.

14. Related Party Transactions

The seven members of METRO's Board of Directors are also members of the fourteen-member RPTA Board of Directors. METRO has entered into contracts with the RPTA for certain administrative functions, including personnel, administration, financial and accounting services, purchasing, and computer support services. All METRO staff is hired and employed by RPTA but works solely under the direction of the METRO and its Board of Directors, through a contractual arrangement with RPTA. For the period July 1, 2008 through June 30, 2009, METRO paid \$8,616,062 for services provided by RPTA.

15. Arizona State Retirement System

Plan Description – METRO contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the METRO's contribution rate. For the year ended June 30, 2009, active plan members and METRO were each required by statute to contribute at the actuarially determined rate of 9.45 percent (7.92 percent retirement, 1.03 percent health plan, and 0.50 percent long-term disability) of the members' annual covered payroll. METRO's contribution to the System for the year ended June 30, 2009 and 2008 was \$542,466 and \$413,003 respectively, which was equal to the required contributions for the year.

Schedule of Retirement and Long Term Disability Benefits Accrued

<u>Years ended June 30,</u>	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Total Benefits
2009	\$ 454,638	\$ 59,126	\$ 28,702	\$ 542,466
2008	346,320	45,172	21,511	413,003
2007	291,548	39,669	19,257	350,474

16. Public Transportation Funding

In November 2004, the voters of Maricopa County approved Proposition 400, the continuation of the transportation tax, for a twenty year period beginning in calendar year 2006. On August 14, 2006, METRO and RPTA executed an intergovernmental agreement (IGA) that formally designated METRO as Lead Agency to plan, design, and construct the light rail transit (LRT) program. Among other things, the IGA specifies that RPTA will reimburse METRO, from the Public Transportation Fund, for eligible incurred expenses.

Valley Metro Rail began receiving Public Transportation Funding (PTF) in March 2006. These monies are used to reimburse private utility companies for costs incurred in the relocation of non-prior rights utilities, to reimburse Member Cities for their share of local costs incurred in connection with the acquisition of certain regional transportation assets, and to fund the local share of future light rail extensions as designated in the Regional Transportation Plan.

The components of the LRT system that are currently classified as “regional transportation assets” are light rail vehicles, the maintenance and storage facility, the operations and control center, bridge structures, and regional park and rides.

Public Transportation Fund Expenses (LRT Portion)
Fiscal Year ended June 30, 2009

LRT PTF Expenditures:	\$ in Millions
Non Prior Rights Utility Relocations:	
20 Mile Initial Segment	7.64
Northwest Extension Phase I	1.47
Regional Asset Reimbursements:	
CPEV - 20 Mile Initial Segment	
Phoenix	26.66
Tempe	11.14
Mesa	1.94
Northwest Extension (Phoenix)	0.42
Project Development and Planning	0.95
<u>Total LRT PTF Expenditures</u>	<u>50.22</u>

In June 2009, the Regional Public Transportation Authority (RPTA) issued Transportation Excise Tax Revenue Bonds in the amount of \$100,075,000. A portion of the bonds will pay or reimburse LRT capital expenditures as designated in the Regional Transportation Plan.





OTHER SUPPLEMENTARY INFORMATION

This Section includes the Schedule of Operations – Budget and Actual.



Price and 101 Riders Purchasing Tickets

Valley Metro Rail, Inc.

Schedule of Operations - Budget and Actual

Fiscal Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Over (Under)</u>
Operating Revenues:				
Contributions from member cities	\$ 57,552,081	\$ 32,598,369	\$ 72,357,325	\$ 39,758,955
Passenger fares	4,494,963	4,494,963	3,371,104	(1,123,859)
Federal Transit Administration grants	96,806,000	96,806,000	95,809,708	(996,292)
Public Transportation Funds	83,784,282	123,501,481	63,573,148	(59,928,333)
MAG/RPTA Grants	1,500,000	1,350,000	650,492	(699,508)
Contributions from Others	450,000	450,000	40,000	(410,000)
Total operating revenues	<u>244,587,326</u>	<u>259,200,813</u>	<u>235,801,777</u>	<u>(23,399,037)</u>
Operating Expenses:				
Engineering and design consultants	17,561,363	18,061,363	12,116,692	(5,944,671)
Project management consultants	4,375,000	4,375,000	3,300,087	(1,074,913)
Construction administration consultants	21,185,000	23,485,000	23,377,790	(107,210)
Art design consultants	1,225,000	2,333,000	1,541,662	(791,338)
Planning and environmental consultants	9,834,000	7,734,000	4,120,241	(3,613,759)
Facilities Construction	47,894,002	63,187,000	59,659,307	(3,527,693)
Administrative	13,289,509	14,531,509	13,091,530	(1,439,979)
Capital Outlay	331,700	331,700	1,272,405	940,705
Real estate/ROW Acquisition	30,536,000	25,900,000	41,652,886	15,752,886
Light Rail Vehicles	33,142,112	27,164,112	17,742,332	(9,421,780)
LRT Startup	8,025,000	10,471,029	6,958,846	(3,512,183)
Private Utilities Relocation	14,000,000	18,400,000	10,724,423	(7,675,577)
Finance Costs	27,464,693	27,464,693	24,543,004	(2,921,689)
Rail Operations Expense	15,723,948	15,762,407	15,700,572	(61,835)
Total operating expenses	<u>244,587,327</u>	<u>259,200,813</u>	<u>235,801,777</u>	<u>(23,399,036)</u>

Explanation of Differences between Budgetary Basis and GAAP Basis

Total Operating Expenses - Budgetary Basis	235,801,777
Total Operating Expenses - GAAP Basis	43,395,181
Budgetary Operating Expenses in Excess of GAAP Operating Expenses	<u>192,406,596</u>
Change in Net Assets (capitalized on a GAAP basis and expensed on a budgetary basis)	171,077,226
Less Net Asset additions Financed by Capital Lease (not expensed on a budgetary basis)	(40,095,208)
Member funded finance costs (budgeted expenses not included in GAAP basis)	12,271,502
Member-owned real estate/ROW acquisitions (budgeted expenses not included in GAAP basis)	41,652,886
Concurrent Non-Project Activities (budgeted expenses not included in GAAP basis)	20,378,837
Private Utilities Relocations (budgeted expenses not included in GAAP basis)	9,518,863
All Other Adjustments	40,381
Depreciation (GAAP expenses not included in budgetary basis)	(22,437,891)
Total Reconciling Items	<u>192,406,596</u>

This schedule is prepared on a budgetary basis for the operating accounts of the proprietary fund and as such does not present the results of operations on the basis of generally accepted accounting principles, but is presented for supplemental information. In the current year, GAAP basis operating costs are \$43.4 million, or \$192.4 million less than the budgetary basis costs of \$235.8 million. The primary differences between these two bases of reporting are: 1.) Capital project costs that are included in budgeted costs but added to construction-in-progress for GAAP purposes (\$170.4 million) net of (-\$40.1 million) net assets funded by lease; 2.) Finance and real estate/ROW acquisition costs that are budgeted but not booked for GAAP purposes (\$12.3 and \$41.7 million); 3.) Concurrent non-project activities and Private utility relocations that are included in the budget but not on a GAAP basis (\$20.4 and \$9.5 million); and 4.) Depreciation included for GAAP but not budget (\$-22.4 million).



Interior of Vehicle with Riders



STATISTICAL SECTION

The Statistical Section includes selected financial and demographic information regarding METRO, including financial trends, revenue capacity, demographic and economic information, and operating information.



Train at Sycamore and Main Station in Mesa, AZ

This part of METRO's comprehensive financial report presents information as a context for understanding what the information in the financial statements, footnotes, and supplementary information says about METRO's overall financial condition. METRO's principal activities consist of planning, designing, constructing and operating the light rail transit system in Maricopa County, Arizona.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how METRO's financial performance and well-being have changed over time.	26
Revenue Capacity METRO's principal revenue source is contributions from Member Cities.	N/A
Debt Capacity METRO has no current bond indebtedness.	N/A
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which METRO's financial activities take place.	28
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in METRO's financial report relates to the services METRO provides and the activities it performs.	33

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. METRO's first financial reporting as a separate entity was for the initial period ended June 30, 2003.
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Valley Metro Rail, Inc.
Net Assets by Component
FY 00/01 through FY 08/09 (1)

	<u>FY 00/01</u>	<u>FY 01/02</u>	<u>FY 02/03</u>	<u>FY 03/04</u>	<u>FY 04/05</u>	<u>FY 05/06</u>	<u>FY 06/07</u>	<u>FY 07/08</u>	<u>FY 08/09</u>
Business-type activities									
Invested in capital assets (2)	\$ 55,850	\$ 97,143	\$ 255,143	\$57,341,840	\$ 235,905,852	\$460,380,300	\$ 773,807,490	\$ 1,083,561,843	\$ 1,181,254,415
Restricted	-	-	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-	-	6,602,251
Total business-type activities net assets	<u>\$ 55,850</u>	<u>\$ 97,143</u>	<u>\$ 255,143</u>	<u>\$57,341,840</u>	<u>\$ 235,905,852</u>	<u>\$460,380,300</u>	<u>\$ 773,807,490</u>	<u>\$ 1,083,561,843</u>	<u>\$ 1,187,856,666</u>

Source: Valley Metro Rail, Inc. Finance Division

- (1) Valley Metro Rail, Inc. was established in October 2002. All light rail activities prior to October 2002 were recorded in the financial records of the Regional Public Transportation Authority (RPTA). The amounts shown here for FY 02/03 were reported in both the RPTA and METRO financial records and were combined to show the complete rail transit amount.
- (2) CP/EV LRT project costs incurred prior to July 1, 2004, for project preliminary engineering and project management totaling \$77.1 million paid for by member cities or federal grants were contributed to METRO during the fiscal year ended June 30, 2005. Prior to FY 04/05, these amounts were included in Administration and Planning Services.

Valley Metro Rail, Inc.
Changes in Net Assets
FY 99/00 through FY 08/09 (1)

	<u>FY 00/01</u>	<u>FY 01/02</u>	<u>FY 02/03</u>	<u>FY 03/04</u>	<u>FY 04/05</u>	<u>FY 05/06</u>	<u>FY 06/07</u>	<u>FY 07/08</u>	<u>FY 08/09</u>
Operating Revenues									
Contributions from Member Cities	\$3,739,531	\$ 5,323,908	\$ 28,353,274	\$14,141,126	\$ 27,692,841	\$ 75,672,696	\$156,033,959	\$ 143,276,140	\$ 13,490,504
Passenger Fares									3,371,104
Federal Transit Administration Operating Grants	8,177,395	11,437,481	6,237,102	48,497,109	74,819,942	150,717,452	146,442,055	953,877	-
Sales Tax (RARF)	-	-	-	-	-	-	-	-	-
Public Transportation Funds	-	-	-	-	-	11,700,029	57,160,186	58,315,376	-
Other Revenues	-	-	-	-	-	-	-	-	40,000
Total operating revenues	<u>11,916,926</u>	<u>16,761,389</u>	<u>34,590,376</u>	<u>62,638,235</u>	<u>102,512,783</u>	<u>238,090,177</u>	<u>359,636,200</u>	<u>202,545,393</u>	<u>16,901,608</u>
Operating Expenses									
Administration and Planning Services (2)	11,916,926	16,725,821	34,398,920	5,434,775	1,001,016	1,829,944	5,709,157	5,396,474	5,278,901
Passenger Operations Service	-	-	-	-	-	-	-	-	15,678,389
Private Utilities Relocations	-	-	-	-	-	11,700,029	39,212,754	15,750,886	-
Depreciation	-	39,765	63,436	117,706	136,944	186,644	1,389,987	2,231,538	22,437,891
Total operating expenses	<u>11,916,926</u>	<u>16,765,586</u>	<u>34,462,356</u>	<u>5,552,481</u>	<u>1,137,960</u>	<u>13,716,617</u>	<u>46,311,898</u>	<u>23,378,898</u>	<u>43,395,181</u>
Operating income (loss)	<u>-</u>	<u>(4,197)</u>	<u>128,020</u>	<u>57,085,754</u>	<u>101,374,823</u>	<u>224,373,560</u>	<u>313,324,302</u>	<u>179,166,495</u>	<u>(26,493,573)</u>
Non-Operating Revenues (Expense)									
Federal Transit Administration Operating Grants	-	-	-	-	-	-	-	-	650,492
Public Transportation Funds	-	-	-	-	-	-	-	-	10,945,204
Interest on Investments	-	45,490	29,980	943	80,162	100,888	102,888	91,519	-
Distributions to Member Cities	-	-	-	-	-	-	-	-	(20,078,532)
Private Utilities Relocations	-	-	-	-	-	-	-	-	(9,518,863)
Interest on Capital Lease obligation	-	-	-	-	-	-	-	-	(2,083,503)
Total non-operating revenues (expense)	<u>-</u>	<u>45,490</u>	<u>29,980</u>	<u>943</u>	<u>80,162</u>	<u>100,888</u>	<u>102,888</u>	<u>91,519</u>	<u>(20,085,202)</u>
Capital Contributions									
Federal Transit Administration Capital Grants	-	-	-	-	-	-	-	130,496,339	72,863,699
Contributions from Member Cities	55,850	-	-	-	-	-	-	-	25,381,955
Public Transportation Funds Capital	-	-	-	-	-	-	-	-	52,627,944
Donated Engineering (3)	-	-	-	-	77,109,027	-	-	-	-
Increase in net assets	<u>\$ 55,850</u>	<u>\$ 41,293</u>	<u>\$ 158,000</u>	<u>\$57,086,697</u>	<u>\$ 178,564,012</u>	<u>\$224,474,448</u>	<u>\$313,427,190</u>	<u>\$ 309,754,353</u>	<u>\$ 104,294,823</u>

Source: Valley Metro Rail, Inc Finance Division

- (1) Valley Metro Rail, Inc. was established in October 2002. All light rail activities prior to October 2002 were recorded in the financial records of the Regional Public Transportation Authority (RPTA). The amounts shown here for FY 02/03 were reported in both RPTA and METRO financial records and were combined to show the complete transit amount.
- (2) Prior to FY 04/05, all CP/EV project costs, except for the cost of computers, equipment, and certain other capital assets, were recorded as operating expenses.
- (3) CP/EV LRT project costs incurred prior to FY 04/05 for project preliminary engineering and project management were contributed to METRO during FY 04/05. These costs, totaling \$77.1 million, were originally paid for by member cities or federal grants and were included in Administration and Planning Services expenses for the year incurred.

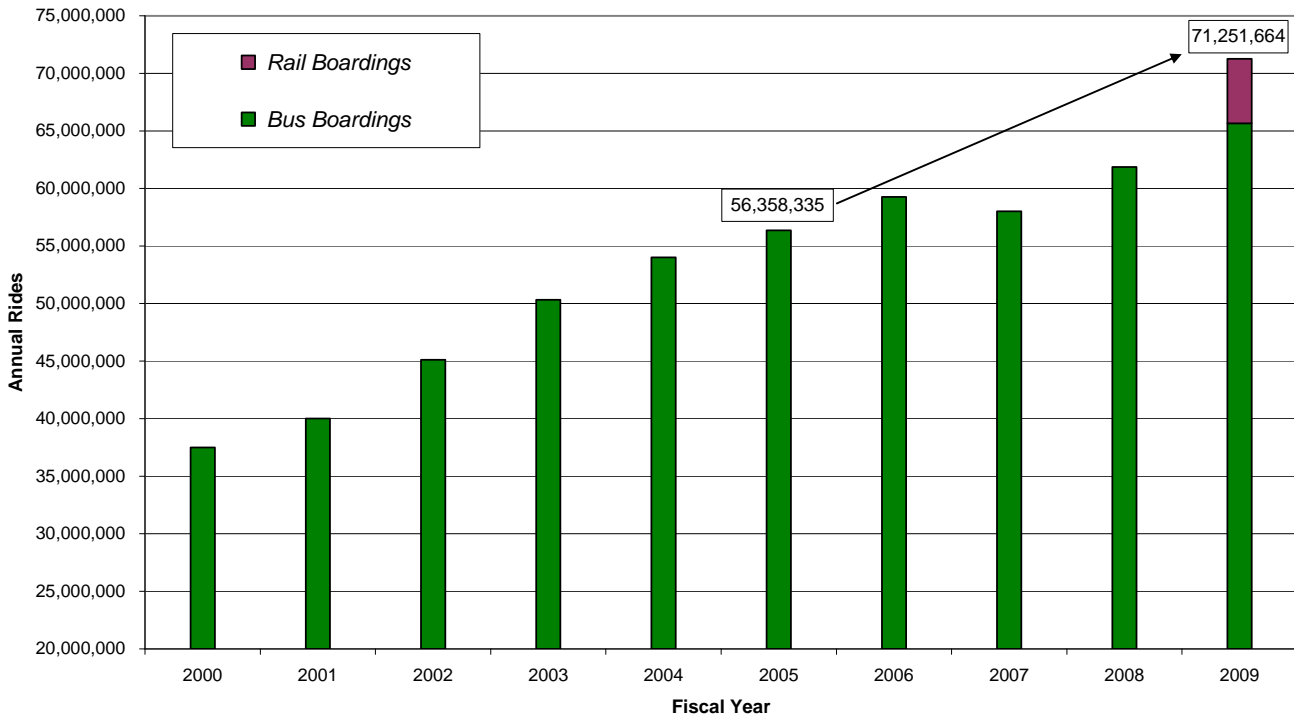
Valley Metro Rail, Inc.

**Growth in Regional Transit Usage – Regional Bus and Rail Boardings
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Boardings</u>	<u>Change</u>
2000	37,496,804	0.35%
2001	40,011,099	6.71%
2002	45,103,085	12.73%
2003	50,319,003	11.56%
2004	54,013,410	7.34%
2005	56,358,335	4.34%
2006	59,253,904	5.14%
2007	58,020,189	-2.08%
2008	61,866,819	6.63%
2009	71,251,664	15.17%

**Valley Metro Regional Bus and Rail Boardings by Fiscal Year
Fixed Route System**

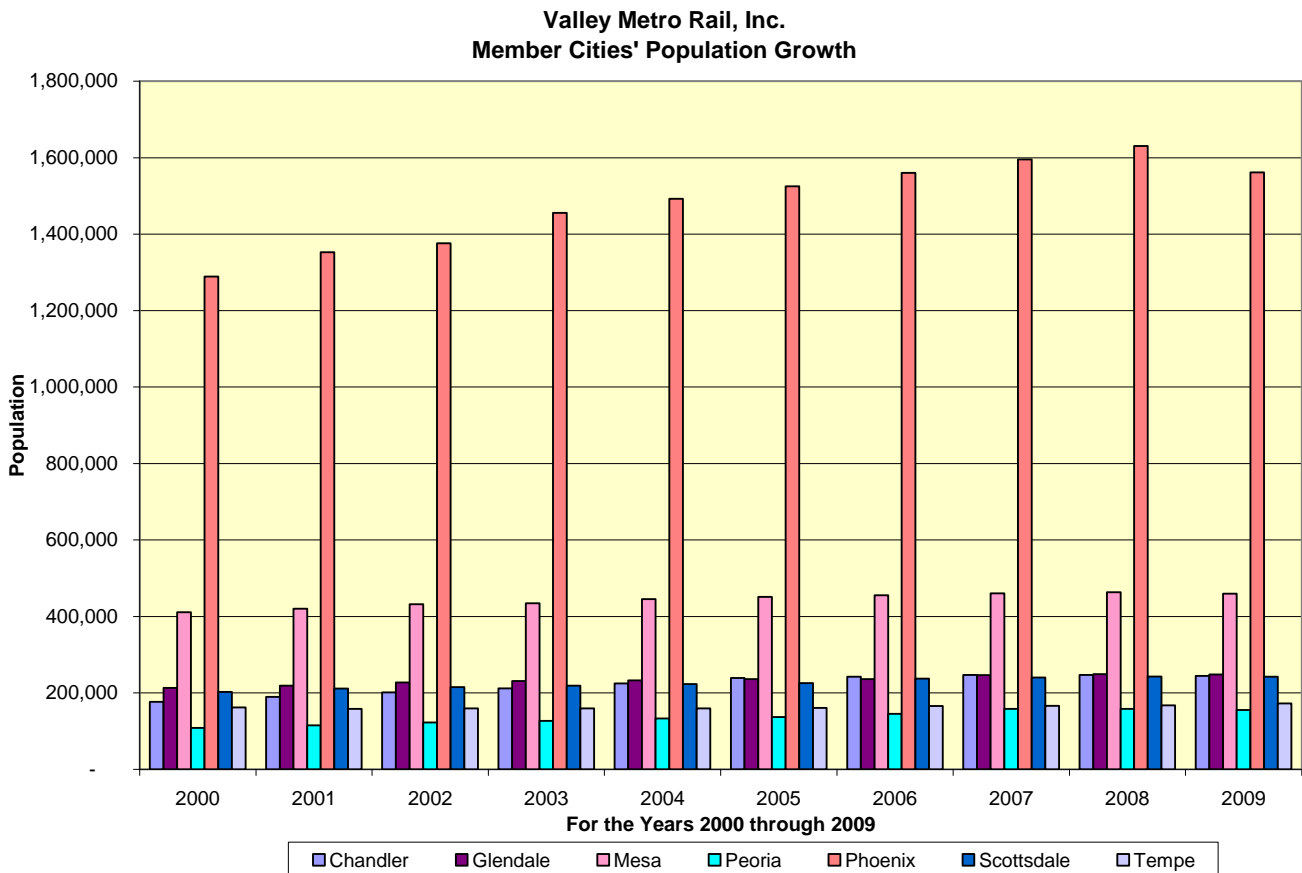
Five Year Growth rate 26.4%



Source: Regional Public Transportation Authority

Valley Metro Rail, Inc.
Member Cities' Population Growth
Last Ten Fiscal Years

<u>Year</u>	<u>Chandler</u>	<u>Glendale</u>	<u>Mesa</u>	<u>Peoria</u>	<u>Phoenix</u>	<u>Scottsdale</u>	<u>Tempe</u>
2000	176,581	213,235	410,797	108,364	1,289,125	202,495	161,995
2001	189,498	218,812	420,525	115,432	1,352,394	211,280	158,625
2002	201,263	227,614	431,874	122,655	1,375,906	215,320	159,425
2003	211,984	231,288	434,585	126,815	1,455,440	218,940	159,426
2004	224,644	233,000	445,354	132,805	1,492,420	222,880	159,615
2005	238,930	235,987	451,223	137,045	1,525,400	225,680	160,820
2006	241,910	235,987	455,151	145,125	1,560,380	237,510	165,796
2007	247,100	246,382	460,155	158,227	1,595,260	240,410	166,625
2008	247,100	248,731	463,397	158,227	1,630,340	242,790	167,458
2009	244,376	248,435	459,682	155,560	1,561,485	242,337	172,641



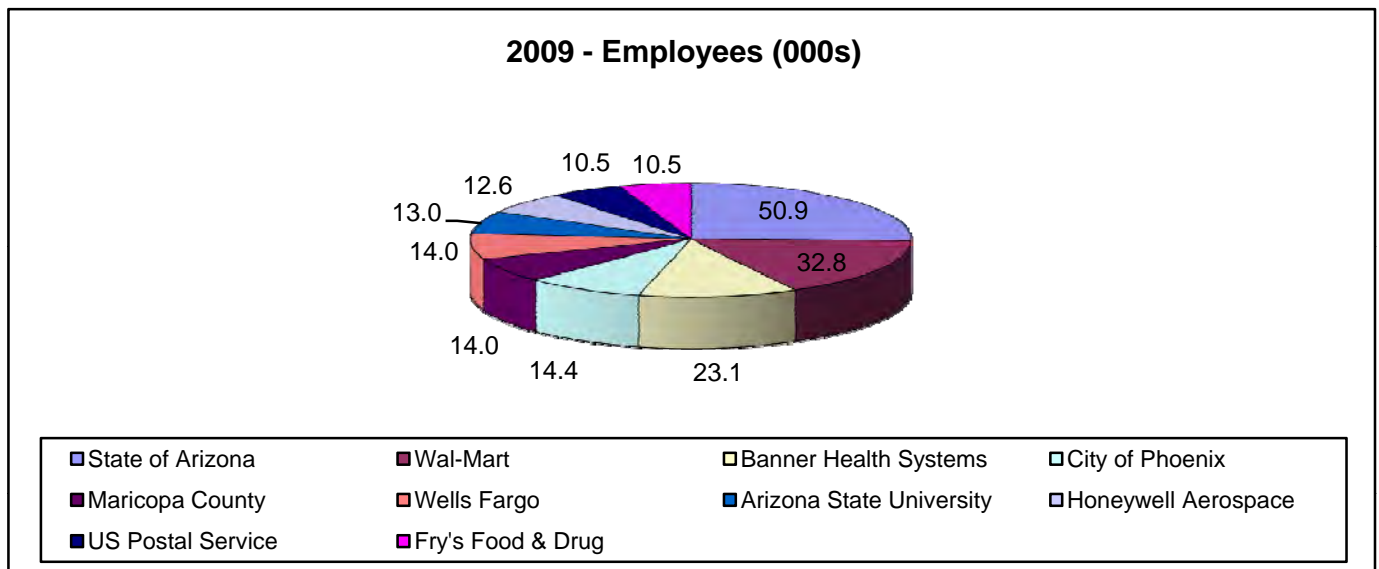
Source: Maricopa Association of Governments

Valley Metro Rail, Inc.

Top Employers in Maricopa County

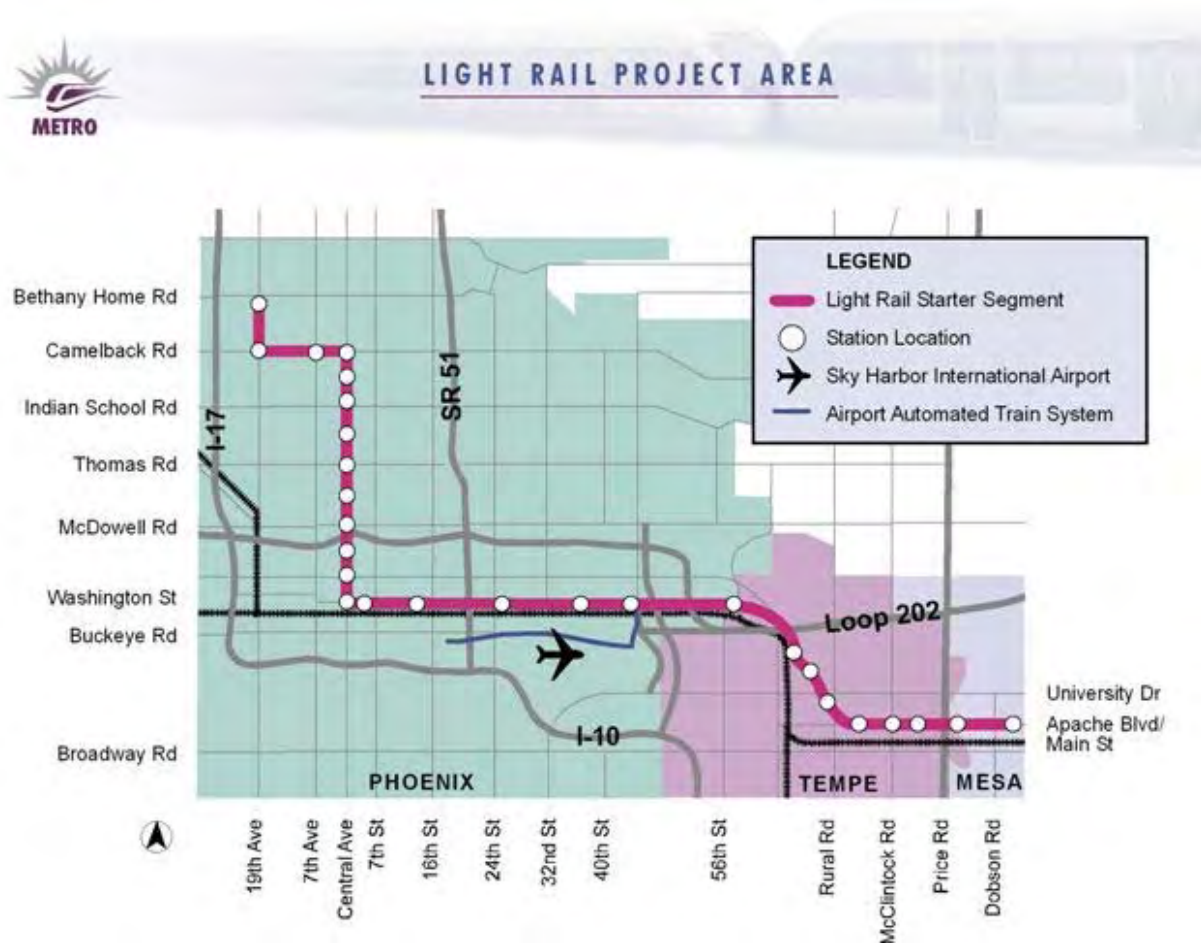
For the Fiscal Year Ended June 30, 2009

Employer	2009			2000		
	Employees	Rank	% of Total	Employees	Rank	% of Total
State of Arizona	50,936	1	2.44%	63,961	1	4.19%
Wal-Mart	32,814	2	1.47%	11,900	5	0.78%
Banner Health Systems	23,100	3	0.83%	9,000	7	0.59%
City of Phoenix	17,068	4	0.70%	13,300	3	0.87%
Maricopa County	14,014	5	0.69%	12,963	4	0.85%
Wells Fargo	14,000	6	0.68%			
Arizona State University	13,005	7	0.62%			
Honeywell Aerospace	12,600	8	0.52%			
US Postal Service	10,545	9	0.54%	10,772	6	0.71%
Bashas' Inc.	10,460	8	0.57%			
Motorola, Inc.				18,500	2	1.21%
Banc One Corp				9,000	7	0.59%
American Express				9,000	7	0.59%
Allied Signal				9,000	7	0.62%



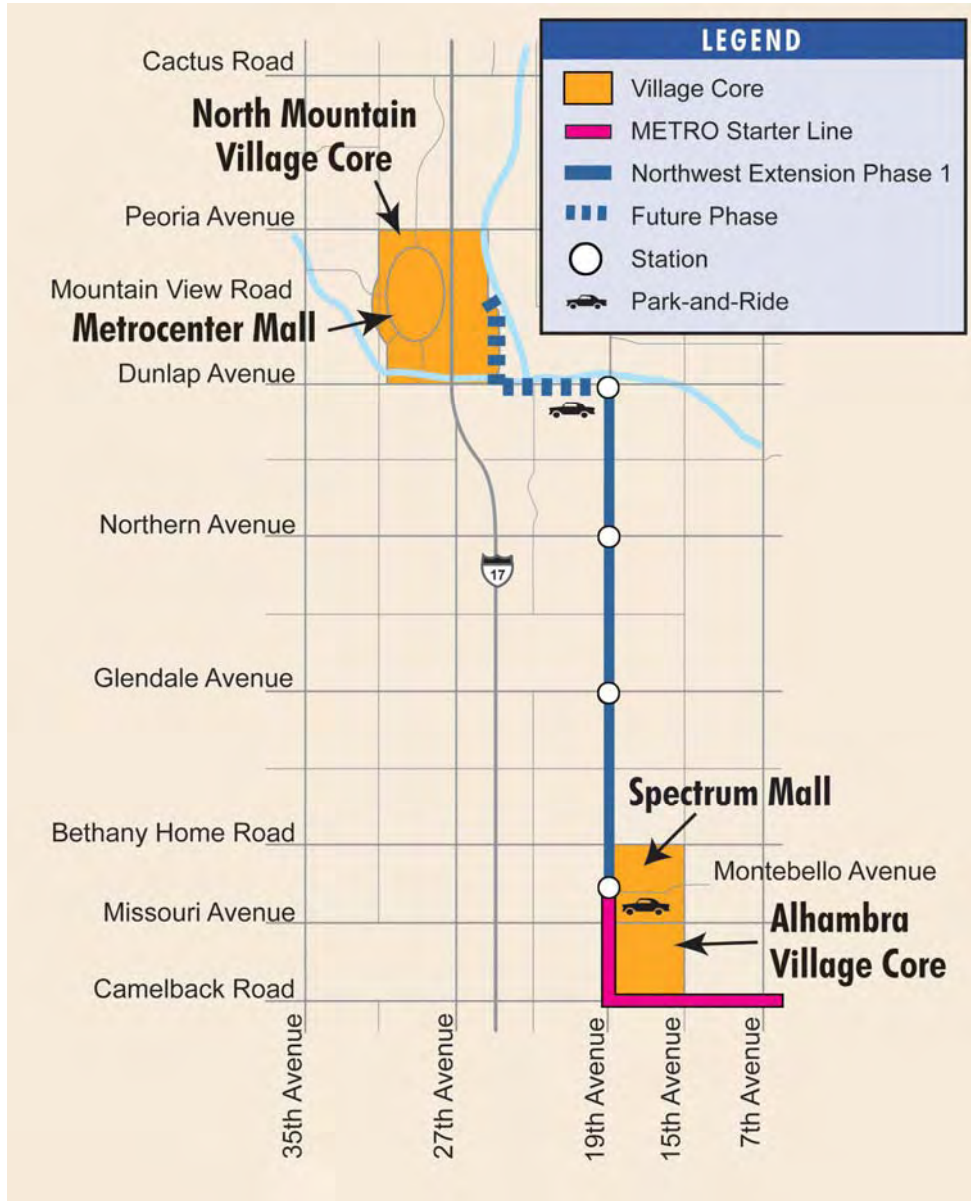
Source: Phoenix Business Journal Book of Lists; Greater Phoenix Economic Council; Arizona Department of Economic Security.

Valley Metro Rail, Inc.
Initial 20-Mile Segment



Initial 20-Mile Segment

Source: Valley Metro Rail, Inc Project Development Division



Northwest Extension

Source: Valley Metro Rail, Inc Project Development Division

Valley Metro Rail, Inc
Full-Time Equivalent Positions

Source: Valley Metro Rail, Inc Finance and Administration Division

Grade	RPTA Position Titles	Authorized FTEs			
		FY 2006	FY 2007	FY 2008	FY 2009
III	Administrative Support Assistant	1	1	1	1
IV	Accounting Technician	1	1	1	1
	Administrative Assistant	5	6	6	6
VI	Paralegal	0	1	1	1
	TES Worker				3
VII	Accountant I	1	1	1	1
	Executive Assistant	3	3	3	2
	Materials Handler				1
	Network Support Specialist				1
	Planner I	1	1	1	0
	Procurement Specialist	1	1	1	0
	Systems Electronic/Communications Maintainer				6
	TES Maintainer				3
	Track Maintainer				6
VIII	Document Control Supervisor	1	1	1	1
	Executive Administrative Coordinator	0	0	0	1
	Information Technology Systems Specialist	0	0	1	1
	Maintenance Scheduling				1
	Materials/Warranty Coordinator	0	1	1	1
	Sr Communications Specialist	1	1	1	1
	Utility Relocation Specialist	0	0	1	1
	Warranty Administrator				1
IX	Accountant II	1	1	1	1
	Area Coordinator	1	1	2	2
	Contract Administrator	1	1	1	1
	Planner II	1	1	1	2
	Supervisor, Facility Maintenance				1
	Supervisor, Track Maintenance				1
	Systems Electronic/Communications Technician				4
	TES Lead				3
X	Lead Technician	0	0	1	1
	Network Systems Engineer				1
	Program Control Specialist	1	1	1	1
	Senior Contract Administrator	2	2	2	2
	Signals/Communications Maintenance Supervisor				1
	TES Supervisor				1
XI	Public Arts Administrator	1	1	1	1
	Public Information Officer				1
	Rail DBE Program Manager	1	1	1	1

Valley Metro Rail, Inc
Full-Time Equivalent Positions

Source: Valley Metro Rail, Inc Finance and Administration Division

Grade	RPTA Position Titles	Authorized FTEs			
		FY 2006	FY 2007	FY 2008	FY 2009
XII	Communications Manager	1	1	1	0
	Rail Marketing Manager	0	0	1	1
	Rail Public Involvement Manager	1	1	1	1
	Rail Real Estate Manager	1	1	1	1
	Rail Senior Engineer (PE)	1	1	1	1
	Rail Senior LRV Engineer (PE)	0	1	0	0
	Rail Senior Program Control Specialist	1	1	0	0
	Rail Utility Manager	1	1	1	1
XIII	Contracts and Procurement Manager	1	1	1	1
	Finance and Budget Manager	1	1	1	1
	Manager of Construction	0	0	1	1
	Manager, Systems and Facility Maintenance	0	0	1	1
	Rail Capital Project Schedule Manager	0	0	1	1
	Rail Maintenance Manager	1	1	1	1
	Rail Operations Manager	1	1	1	1
	Rail Project Manager, Facilities Engineer	2	2	2	2
	Rail Project Manager, Planning	1	1	2	2
	Rail Quality Assurance Manager	1	1	0	0
XIV	Rail O & M Startup/Activation Manager	1	1	1	1
	Rail Safety and Security Chief	1	1	0	0
	Rail Systems Engineering Manager	1	1	1	1
XV	Rail Community Relations Director	1	1	1	1
	Rail Finance & Administration Director	1	1	1	1
	Rail Safety, Security, and Quality Director	0	0	1	1
XVI	Rail Design & Construction Director	1	1	1	1
	Rail General Counsel	1	1	1	1
	Rail Operations & Maintenance Director	1	1	1	1
	Rail Project Development Director				1
ED	Rail Chief Executive Officer	1	1	1	1
		<u>47</u>	<u>51</u>	<u>57</u>	<u>91</u>

Valley Metro Rail, Inc.
Schedule of FY 2009 Adopted Pay Grades and Ranges
For the Fiscal Year Ended June 30, 2009

Grade	RPTA Position Titles	Pay Range	
III	Administrative Support Assistant	\$27,626	- \$41,439
IV	Accounting Technician	\$30,696	- \$46,043
	Administrative Assistant	\$30,696	- \$46,043
VI	Paralegal	\$37,142	- \$55,712
	TES Worker	\$37,142	- \$55,712
VII	Accountant I	\$40,856	- \$61,284
	Executive Assistant	\$40,856	- \$61,284
	Materials Handler	\$40,856	- \$61,284
	Network Support Specialist	\$40,856	- \$61,284
	Planner I	\$40,856	- \$61,284
	Procurement Specialist	\$40,856	- \$61,284
	Systems Electronic/Communications Maintainer	\$40,856	- \$61,284
	TES Maintainer	\$40,856	- \$61,284
	Track Maintainer	\$40,856	- \$61,284
VIII	Document Control Supervisor	\$44,942	- \$67,413
	Executive Administrative Coordinator	\$44,942	- \$67,413
	Information Technology Systems Specialist	\$44,942	- \$67,413
	Maintenance Scheduling	\$44,942	- \$67,413
	Materials/Warranty Coordinator	\$44,942	- \$67,413
	Utility Relocation Specialist	\$44,942	- \$67,413
	Warranty Administrator	\$44,942	- \$67,413
IX	Accountant II	\$49,435	- \$74,154
	Area Coordinator	\$49,435	- \$74,154
	Contract Administrator	\$49,435	- \$74,154
	Planner II	\$49,435	- \$74,154
	Supervisor, Facility Maintenance	\$49,435	- \$74,154
	Supervisor, Track Maintenance	\$49,435	- \$74,154
	Systems Electronic/Communications Technician	\$49,435	- \$74,154
	TES Lead	\$49,435	- \$74,154
X	Lead Technician	\$54,380	- \$81,569
	Network Systems Engineer	\$54,380	- \$81,569
	Program Control Specialist	\$54,380	- \$81,569
	Senior Contract Administrator	\$54,380	- \$81,569
	Signals/Communications Maintenance Supervisor	\$54,380	- \$81,569
	TES Supervisor	\$54,380	- \$81,569
XI	Public Arts Administrator	\$59,818	- \$89,726
	Public Information Officer	\$59,818	- \$89,726
	Rail DBE Program Manager	\$59,818	- \$89,726

Source: Valley Metro Rail, Inc Finance and Administration Division

Valley Metro Rail, Inc.
Schedule of FY 2009 Adopted Pay Grades and Ranges
For the Fiscal Year Ended June 30, 2009

Grade	RPTA Position Titles	Pay Range	
XII	Marketing Manager	\$65,799	- \$98,698
	Rail Public Involvement Manager	\$65,799	- \$98,698
	Rail Real Estate Manager	\$65,799	- \$98,698
	Rail Senior Engineer (PE)	\$65,799	- \$98,698
	Rail Senior Program Control Specialist	\$65,799	- \$98,698
	Rail Utility Manager	\$65,799	- \$98,698
XIII	Contracts and Procurement Manager	\$72,379	- \$108,568
	Finance and Budget Manager	\$72,379	- \$108,568
	Manager, Signals, Communications, and Traction Power	\$72,379	- \$108,568
	Rail Manager of Construction	\$72,379	- \$108,568
	Rail Schedule Manager - CP	\$72,379	- \$108,568
	Rail Maintenance Manager	\$72,379	- \$108,568
	Rail Operations Manager	\$72,379	- \$108,568
	Rail Project Manager, Facilities Engineer	\$72,379	- \$108,568
Rail Project Manager, Planning	\$72,379	- \$108,568	
XIV	Rail O & M Startup/Activation Manager	\$81,992	- \$122,987
	Rail Systems Engineering Manager	\$81,992	- \$122,987
XV	Rail Community Relations Director	\$106,589	- \$143,874
	Rail Finance & Administration Director	\$106,589	- \$143,874
	Rail Safety, Security, and Quality Assurance Director	\$106,589	- \$143,874
XVI	Rail Design & Construction Director	\$117,246	- \$165,355
	Rail Operations & Maintenance Director	\$117,246	- \$165,355
	Rail General Counsel	\$117,246	- \$175,869
	Rail Project Development Director	\$117,246	- \$165,355
ED	Chief Executive Officer	Salary Negotiated	

Source: Valley Metro Rail, Inc Finance and Administration Division

Valley Metro Rail, Inc.
Schedule of Insurance Coverage
For the Fiscal Year Ended June 30, 2009

Source: Valley Metro Rail, Inc Contracts and Procurement Division

Valley Metro Rail, Inc (METRO) employs the firm of Arthur J. Gallagher Risk Management Services, Inc. as its broker for the purchase of insurance. METRO's commercial insurance program consists of the following:

Policy #	Coverage	Limits	Policy Term	Premium	Carrier
KTKCMB2700C786	Commercial Propety	127,637,941 TIV 10,000 Deductible 5,000,000 Flood & EQ 100,000 Deductible	12/18/08 to 12/1/09	\$128,614	Travelers Indemnity Co.
QT6605832B527	Inland Marine - Rolling Stock	150,660,000 TIV 100,000 Deductible	12/18/08 to 12/1/09	\$143,643	Travelers P&C Insurance Co.
QT6605831B008	Inland Marine - Town Lake Bridge	22,581,224 TIV 5,000,000 Flood & EQ 100,000 Deductible	12/18/08 to 12/1/09	\$34,432	Travelers P&C Insurance Co.
121112951002	DIC - Excess Flood and EQ Town Lake Bridge	15,000,000 per Occurrence x/o 5,000,000	12/18/08 to 12/1/09	\$39,924	ACE/Westchester Fire
CCP00637982	Commercial Crime	1,000,000 Limit 10,000 Deductible	12/18/08 to 12/1/09	\$2,582	Fidelity & Deposit Co. of Maryland
1337270814	Auto Liability and Physical Damage	250,000 CSL 2,000 Comp & Coll Deductible	12/18/08 to 12/1/09	\$64,110	United States Fire Insurance Co.
7251907	Primary Excess Liability	10,000,000 per Occurrence 10,000,000 Aggregate 250,000 SIR	12/18/08 to 12/1/09	\$389,570	Insurance Co. of the State of PA
71P3000014081	Excess Liability - 2nd Layer Quota Share with AWAC	10,000,000 per Occurrence 10,000,000 Aggregate part of 25,000,000 x/o 10,000,000 and SIR	12/18/08 to 12/1/09	\$80,087	Everest National Insurance Co.
C011008001	Excess Liability - 2ne Layer Quota Share with Everest National	15,000,000 per Occurrence 15,000,000 Aggregate part of 25,000,000 x/o 10,000,000 and SIR	12/18/08 to 12/1/09	\$120,132	Allied World Assurance Co.
ENU736241/01/2008	Excess Liability - 3rd Layer	25,000,000 per Occurrence 25,000,000 Aggregate x/o 35,000,000 and SIR	12/18/08 to 12/1/09	\$153,497	AXIS Surplus Insurance Co.

Valley Metro Rail, Inc.
Schedule of Insurance Coverage
For the Fiscal Year Ended June 30, 2009

Valley Metro Rail, Inc (METRO) employs the firm of Arthur J. Gallagher Risk Management Services, Inc. as its broker for the purchase of insurance. METRO's commercial insurance program consists of the following:

Policy #	Coverage	Limits	Policy Term	Premium	Carrier
MH720642	Excess Liability - 4th Layer Quota Share with Great American	25,000,000 per Occurrence 25,000,000 Aggregate part of 40,000,000 x/o 60,000,000 and SIR	12/18/08 to 12/1/09	\$102,493	Swiss Re International SE
EXC2195605	Excess Liability - 4th Layer Quota Share with Swiss Re	15,000,000 per Occurrence 15,000,000 Aggregate part of 40,000,000 x/o 60,000,000 and SIR	12/18/08 to 12/1/09	\$61,469	Great American
181623	Workers Comp & Employers Liability	WC - Statutory EL - 1,000,000	3/1/07/08		SCF of Arizona
BE2860717	Owners/Contractors Protective (Project Policy)	15,000,000/Occurrence x/o 10,000,000 SIR	6/24/04 to 2/24/09	\$1,050,000	National Union Fire Insurance Co.
C0036651001	Owners/Contractors Protective (Project Policy)	25,000,000/Occurrence x/o 15,000,000 and SIR	6/24/04 to 2/24/09	\$450,000	Allied World Assurance Co.
6348122	Owners/Contractors Protective (Project Policy)	50,000,000/Occurrence x/o 40,000,000 and SIR	6/24/04 to 2/24/09	\$450,000	Starr Excess
37312354	Pollution Legal Liability (Fixed-site coverage)	5,000,000 each Pollution Incident 5,000,000 Aggregate 25,000 Deductible	12/1/07-12	\$31,278	Chubb Custom Insurance Co.
EOC539601300	Owners Protective Professional Indemnity	20,000,000 each Claim 20,000,000 Aggregate 20,000,000 SIR	12/16/02 to 5/1/09	\$483,000	Steadfast Insurance Co.
200181	Contractors Environmental Protection	25,000,000 per Accident 50,000,000 Maximum	6/24/08-09	\$380,032	Quanta Specialty Lines
200180	Pollution Legal Liability (Fixed-site coverage)	25,000,000 per Accident 50,000,000 Maximum	6/24/08-09	\$432,893	Quanta Specialty Lines

PRE-INCORPORATION ACTIVITIES

November 2000 - Final light rail alignment approved

February 2001 - Project opens community office for the public

September 2001 - City of Phoenix purchases first property for the light rail system at Camelback Road and 3rd Avenue.

December 2001 - Project receives first Recommended rating from the Federal Transit Administration (FTA) in its New Starts Report.

October 2002 - Valley Metro Rail, inc. is incorporated.

VALLEY METRO RAIL, INC. ACTIVITIES

July 2003 - METRO receives formal approval from the FTA for the light rail project to enter the Final Design phase. The approval allows designers to finalize the construction plans during the coming months, begin utility relocation, and request early approval to begin purchasing light rail vehicles and construction materials.

August 2004 - The METRO board approves the METRO Business Outreach Plan to help minimize the impacts of light rail construction on businesses located along the light rail transit alignment.

November 2004 - A groundbreaking ceremony is held for the reconstruction of an access bridge over the Grand Canal at 48th Street that leads to the light rail Maintenance and Storage Facility.

January 2005 - Full Funding Grant Agreement signed for the Central Phoenix East Valley (CPEV) Light Rail Project. (20 mile initial operating segment)

April 2005 - METRO Max program launched, business support program encouraging residents to patronize businesses impacted by light rail construction.

May 2005 - First embedded track in downtown Phoenix is placed at Central and Van Buren.

August 2006 - Tempe Town lake Bridge completed.

March 2007 - Operations and Maintenance Center completed. Testing, training and Light Rail Vehicle final assembly activities commence.

March 2007 - Structural steel is erected on the first METRO station at Van Buren Street and First Avenue.

March 2007 - Phoenix City Council approves funding for Northwest Extension

December 2008 - Central Phoenix East Valley Light Rail Project (Initial 20 Mile Segment) construction completes on-time and within budget.

January 2009 - Rail Passenger Operations commence; Ridership planned for 26,000 passengers per day reaches over 40,000 daily passengers in April 2009.

June 2009 - Award to METRO CPEV Light Rail Project:
Public Works Project of the Year – American Public Works Association, Arizona Chapter

Source: Valley Metro Rail, Inc. Finance and Administration Division