



# Valley Metro Rail, Inc. Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011





# **VALLEY METRO RAIL, INC.**

Phoenix, Arizona

## **Comprehensive Annual Financial Report**

**For the fiscal year ended**

**June 30, 2011**

**Prepared by:**

**Finance & Administration Division**



# LIGHT RAIL SYSTEM



## 2010 Facts and Figures

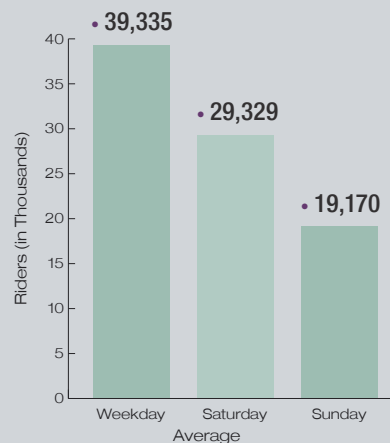


### Top five busiest stations

- Sycamore/Main St
- Montebello/19th Ave
- University Dr/Rural
- Veterans Way/College Ave
- McDowell/Central Ave

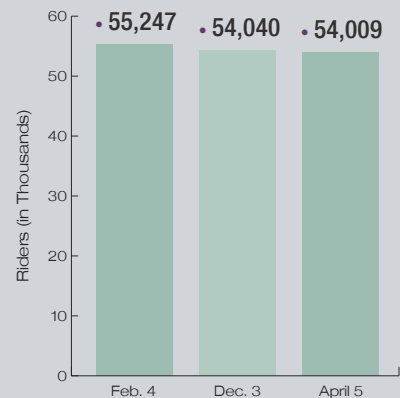
### Ridership

- 12.6 million total riders
- Increase of 11% over 2009
- Exceeded projections by 51%



### Highest ridership days

- Feb. 4—Get Motivated Seminar
- Dec. 3—First Friday; Tempe Arts Festival; Phoenix Suns
- April 5—Arizona D’backs season home opener



## System Overview

- Number of miles: 20
- Number of stations: 28
- Number of vehicles: 50
- Number of parking spaces: 3,500
- Total travel time: 65 minutes
- Opening date: Dec. 27, 2008
- Cost to build: \$1.4 billion
- Cost to operate: \$33.2 million in FY11
- Cost to ride: \$1.75 per ride; \$3.50 for all day

Valley Metro Rail, Inc. (METRO) is responsible for the development and operation of the region’s high-capacity transit system. The 20-mile light rail starter line opened December 2008 and served 12.6 million riders in 2010, exceeding the prior year by 11 percent and system projections by 51 percent.

## Design and Construction

METRO’s 20-mile light rail line is the longest starter line in federal New Starts grant history. It was built entirely in-street using a train-only trackway and traffic signals to allow trains to safely move through the cities of Phoenix, Tempe and Mesa, Arizona. The cost was \$1.4 billion paid for using a \$587 million federal New Starts grant, \$59 million from federal Congestion Mitigation and Air Quality funding and local tax dollars. The local funds are a mix of sales tax revenue from the cities of Phoenix and Tempe, General Fund from Mesa and the county’s Proposition 400 half-cent sales tax.

There are 28 stations, primarily located in the center of the roadway, and designed using a kit-of-parts infrastructure with significant consideration given to the desert heat. Artwork is an integral part of the system and incorporated into each station area. The art pieces were designed using community input and several local, as well as national artists.

Eight park-and-rides feed the system where free parking can be enjoyed by riders. The more than 3,500 spaces are available on a first-come, first-serve basis and, like the rest of the system, monitored using security cameras.

METRO has 50 vehicles in its fleet, each with a comfort capacity of 175 passengers. The vehicles are state-of-the-art technology and, similar to the stations, customized for the desert climate and operating environment.



**Operations**

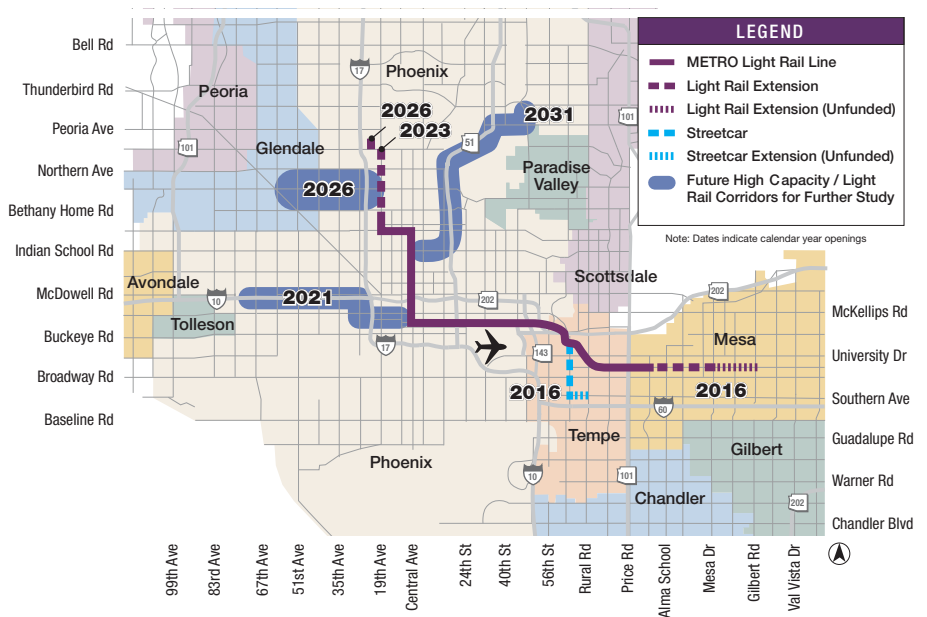
METRO operates 365 days a year, 20 hours a day, Sunday – Thursday, and almost 24 hours on Friday and Saturday. Trains arrive every 12 minutes during the weekday peak period; every 15 minutes during the Saturday peak; and every 20 minutes during all other hours, Sundays and holidays.

Light rail service is coordinated with bus service to provide a seamless network for customers. An all-day pass or greater is good for both rail and bus. Passes can be purchased at fare vending machines located at each station, online or from retail outlets Valleywide. Security officers regularly patrol the system and ask passengers at random for proof of payment. Fare evasion is cited with a fine that starts at \$50, but can increase to \$500.

For many, the METRO system provides connection to work, school and play. There are several sports and entertainment venues, arts and culture organizations and restaurants and bars that attract riders to the line. METRO also connects to Phoenix Sky Harbor International Airport with a shuttle bus accessible from the 44th Street/Washington transit center.

**Future Expansion**

METRO is responsible for building a 57-mile high-capacity transit system as defined in the Regional Transportation Plan by 2031. Planning, and design in some cases, has begun on the six extensions that make up the remainder of the 37 miles yet to be built. Two have been defined as light rail corridors: the Northwest and Central Mesa extensions. A 2.6-mile modern streetcar line will be built in central Tempe. The other three – Phoenix West, Glendale and Northeast Phoenix – have yet to determine a specific transit mode and route.





## Valley Metro Rail, Inc.

### Table of Contents

### Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011

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	<u>Page</u>
<b><u>Introductory Section</u></b>	
Letter of Transmittal	iii
Certificate of Achievement for Excellence in Financial Reporting	ix
Policy Organizational Chart	x
List of Appointed Officials	xi
<b><u>Financial Section</u></b>	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Fund Net Assets	10
Statement of Cash Flows	11
Notes to the Financial Statements	12
<b><u>Other Supplementary Information</u></b>	
Schedule of Operations - Budget and Actual	24
<b><u>Statistical Section</u></b>	
Financial Trends	
Net Assets by Component	26
Changes in Net Assets	27
Demographic and Economic Information	
Growth in Regional Transit Usage	28
Member Cities' Area Growth	29
Top Employers in Maricopa County	30
System Map - Initial 20-Mile Segment	31
System Map - Northwest Extension	32
System Map - Central Mesa	33
System Map - Tempe Streetcar	34
Operating Information	
Full-Time Equivalent Positions	35
Pay Grades and Ranges	37
Schedule of Insurance Coverage	39
Design & Construction Milestones	41



# 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

**December 21, 2011**

**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, 2011, 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, Heinfeld, Meech & Co., P.C., 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, 2011, 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, 2011, 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, 2011, 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. Subsequent to the close of fiscal year 2010-2011, the City of Peoria withdrew membership effective July 1, 2011.

During the fiscal year 2010-2011, a six member Board of Directors governed METRO, consisting of the mayors or their designated representatives from each member city. 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, 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 1,000 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 six cities have grown from 2.4 million residents in the year 2000 to 2.7 million residents in 2010, an increase of approximately 12.9% in the last ten years. The six cities' population represents almost 70% 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 4.0 million in 2008 to 6.3 million in 2030.

In 2007 and 2008, the region's historically strong economic growth slowed and sales tax revenues fell with the nation-wide recession. In fiscal years 2009 and 2010 regional revenues fell 13.7% and 8.9% respectively. METRO responded to the times with staff reductions in 2009 and with service reductions in 2010. In fiscal year 2011 regional revenues have rebounded, growing by 3.4%. Due to the strong financial plan established for the 20 mile initial light rail system, the funding for 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 14.1 percent in the region. With the commencement of rail passenger operations in December 2008, the LRT System added new capacity to the regional transportation system. Since opening, the METRO light rail line has experienced strong passenger growth with average weekday ridership exceeding 39,000 passengers versus the 26,000 riders planned.

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 or design 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, 2011, 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 construction project, METRO regularly reports the project budget status to the Board showing by project element the 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 project budget, METRO staff will seek Board action to adjust project scope or approve additional funding. During construction, significant issues are addressed in narrative reports included in the project progress report submitted to the Board on a quarterly basis.

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 annual operations 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. In the first thirty months of operations, METRO has successfully operated within budget while achieving on-time and reliability performance targets.

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. In the first thirty months, METRO's fare revenues have exceeded budget.

## **MAJOR INITIATIVES**

### **Design and Construction of Light Rail and Modern Streetcar**

METRO successfully completed construction of the Central Phoenix/East Valley Light Rail Transit (CP/EV LRT) Project, funded by Section 5309 New Starts program. The Northwest Extension, the first planned LRT extension has completed the design phase and is wrapping up real estate procurement. Due to the economic downturn, the Northwest Extension project construction activities will be phased pending availability of funds from the City of Phoenix. The Central Mesa Light Rail Extension has completed the preliminary engineering phase and is commencing final design, real estate acquisition and utility relocation work for an anticipated line opening in 2015. In Tempe, a 2.6 mile modern streetcar alignment has completed the planning phase and anticipated to commence design and construction for a line opening in 2016. In Phoenix, planning for the 11 mile Phoenix West Light Rail Extension along the Interstate 10 corridor is nearing completion, with an expected locally preferred alternative route to be selected in the coming year. (See pages 31-34 for system maps)

### **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. 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 27, 2008.

Revenue operations commenced January 1, 2009 providing service from 5AM to 11PM seven days a week. Weekday riders have access to trains every 12 minutes from 7AM 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, will be phased based upon availability of funding. Real estate acquisition and private utility relocation 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. During FY 2007-2008, the City of Phoenix commenced acquisition of real property for the 3.2 mile alignment. In fiscal years 2010 and 2011, real estate acquisition continued, private utility lines were relocated and neighborhood mitigation improvements were made to prepare for light rail construction.

### **Central Mesa Light Rail Extension Project**

In March, 2010, the Mesa City Council approved a 3.1 mile extension of the LRT system and in August 2010, the Federal Transit Administration approved the alignment for project development as the next step toward federal funding. The extension begins at the eastern limits of METRO's existing light rail system (Sycamore) and extends east on Main Street to Mesa Drive. The entire extension is within the City of Mesa. There are four stations on Main Street including a station at Alma School Road, Country Club Drive, Center Street, and Mesa Drive.

The extension is planned to open in 2015 with ridership estimated at approximately 4,750 riders per day. The total capital cost of the project is \$199.0 million to be funded with a combination of federal and regional funds.

### **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. 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 \$1.3 billion (in year of expenditure dollars) in revenue over the 20 year period to fund construction of an additional 14 miles of light rail extension and 2.6 miles of modern streetcar.

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 August 2010, the FTA funded the final \$61.2 million 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, 2011, \$263.5 million of Public Transportation Funds have been received to fund METRO rail programs.

In December 2007, the Phoenix City Council approved \$34.7 million to fund pre-construction activities for the Northwest Extension. In July 2009, in response to reductions in sales tax revenues, the Council took action to phase 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.

In December 2009, METRO submitted application with the FTA to enter Project Development for the Central Mesa LRT Extension. In August of 2010 FTA approved the project to move forward into design under the Sec 5309 Small Starts program. In August of 2011, the FTA approved the project environmental submittal enabling right of way acquisition and utility relocation eligible for federal funding.

### **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, 2010. 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, Finance & 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, 2010

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.



*Linda C. Dandson*

President

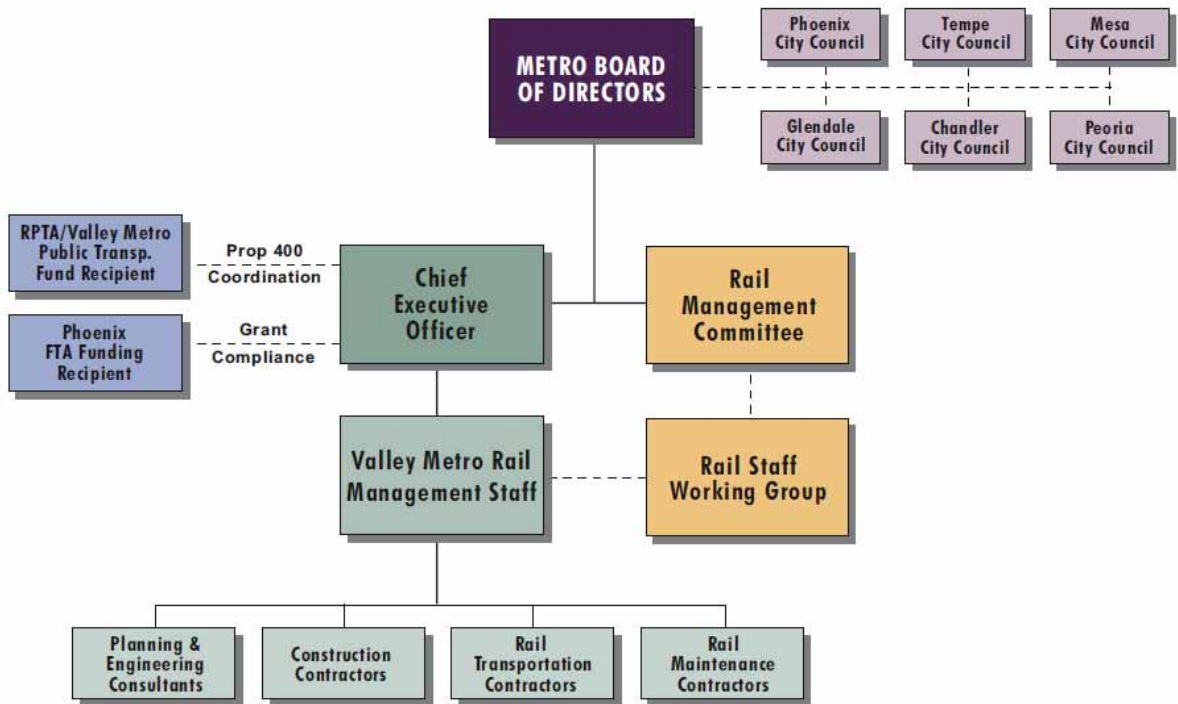
*Jeffrey R. Emer*

Executive Director



**Arizona State University students boarding train**

**VALLEY METRO RAIL, INC.  
Policy Organizational Chart  
Fiscal Year Ended June 30, 2011**



**VALLEY METRO RAIL, INC.**  
**List of Appointed Officials**  
**Fiscal Year Ended June 30, 2011**

**Board of Directors**

Board Chairman	Councilman Tom Simplot, Phoenix
Vice Chairman	Councilmember Dennis Kavanaugh, Mesa
Board Member	Mayor Bob Barrett, Peoria
Board Member	Councilmember Shana Ellis, Tempe
Board Member	Councilmember Rick Heumann, Chandler
Board Member	Mayor Elaine M. Scruggs, Glendale

**Executive Management Team**

Chief Executive Officer	Stephen R. Banta
Chief Operations Officer	Raymond Abraham
Director, Community and Government Relations	John Farry
Director, Planning and Development	Wulf Grote
Chief, Safety and Security	Jay Harper
General Counsel	Mike Ladino
Director, Finance & Administration	John McCormack



## FINANCIAL SECTION

The Financial Section includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to the financial statements.



HEINFELD, MEECH & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



## INDEPENDENT AUDITORS' REPORT

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, 2011, as listed in the table of contents. These financial statements are the responsibility of the METRO'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Valley Metro Rail, Inc., as of June 30, 2011, and the 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 December 21, 2011, on our consideration of Valley Metro Rail, Inc.'s internal control over financial reporting and on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise METRO's financial statements as a whole. The accompanying supplementary information such as the introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. 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 do not express an opinion or provide any assurance on them.

*Heinfeld, Meech & Co., P.C.*

HEINFELD, MEECH & CO., P.C.  
Certified Public Accountants

December 21, 2011

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, 2011. 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 decreased \$20.4 million in FY 2011. The decrease was caused by scheduled depreciation charges, which exceeded new capital asset growth. Total net assets for METRO were \$1.158 billion at June 30, 2011.
- METRO's operating revenues for FY 2011 were \$30.8 million, a decrease of approximately \$4.7 million from the prior period. Operating revenues consisted of contributions from METRO member cities (\$19.4 million), passenger fares (\$10.2 million) and other revenues (\$1.1 million). In response to economic conditions, METRO cut operating costs reducing contributions from Member Cities by \$6.5 million.
- Non-Operating expenses: This year's non-operating revenue and expense activities report a net \$33.3 million decrease in net assets, composed primarily of distributions to Member Cities to reimburse construction expenditures.
- Capital contributions totaled \$59.5 million, a decrease of approximately \$79.3 million from the prior period. Capital contributions consisted of Member City Contributions of \$2.7 million, Public Transportation Funds of \$49.6 and Federal Transit Administration Capital Grants totaling \$7.3 million. The large decrease in Federal and Member City capital funding reflects the completion of the 20 mile CPEV project, offset by the commencement of capital funding for the 3.1 mile Central Mesa Light Rail Extension.

## **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.

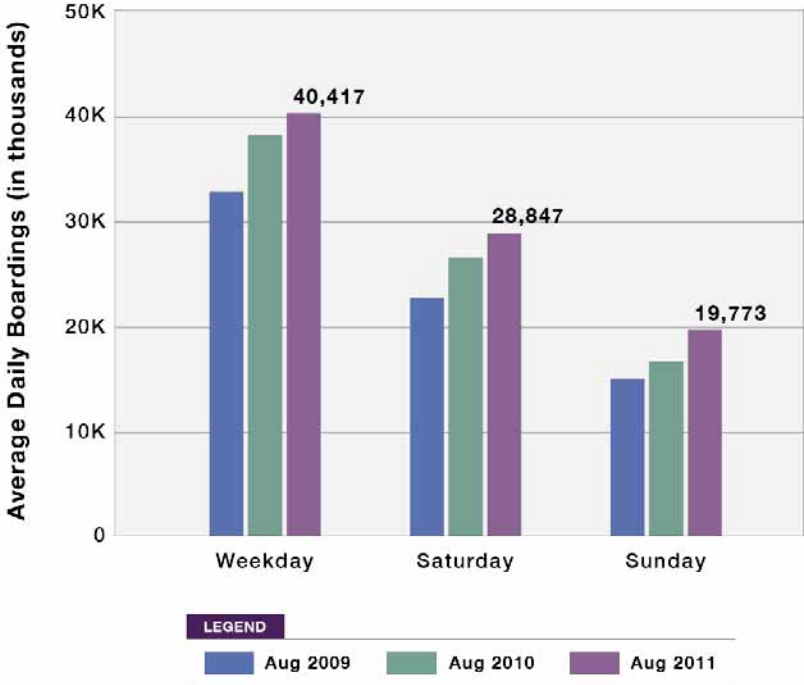
The *statement of net assets* presents information on all of METRO's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of METRO is improving or deteriorating.

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 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. 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.

**August Light Rail Ridership Comparison 2009 / 2010 / 2011**



**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, 2011, 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, 2011, compared to the prior period.

**VMR's Condensed Statement of Net Assets  
As of June 30, 2011 and 2010**

	2011	2010	Change	Percent Change
Current assets	\$ 40,821,064	\$ 102,712,169	\$ (61,891,105)	-60.3%
Noncurrent assets	1,185,084,002	1,213,821,644	(28,737,642)	-2.4%
Total assets	1,225,905,066	1,316,533,813	(90,628,747)	-6.9%
Current Liabilities	36,612,801	98,965,822	(62,353,021)	-63.0%
Noncurrent Liabilities	30,919,628	38,835,463	(7,915,835)	-20.4%
Total liabilities	67,532,429	137,801,285	(70,268,856)	-51.0%
Invested in Capital Assets, net of related debt	1,153,352,954	1,172,536,114	(19,183,160)	-1.6%
Unrestricted	5,019,683	6,196,414	(1,176,731)	-19.0%
<b>Total Net Assets</b>	<b>\$ 1,158,372,637</b>	<b>\$ 1,178,732,528</b>	<b>\$ (20,359,891)</b>	<b>-1.7%</b>

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). In December 2008, 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 decreased \$20.4 million largely due to the annual charge for depreciation on the completed 20 mile system.

**CHANGES IN NET ASSETS**

Total operating revenues, which consist of Contributions from Member Cities, Passenger Fares, and Other Revenues (advertising and MAG planning funds), decreased by \$4.7 million. Member City contributions decreased \$6.5 million and were favorably impacted by increases in Passenger Fares, advertising revenues and federal operating grants. In addition, METRO's initiatives to reduce operating costs reduced funding requirements from member cities.

Operating expenses decreased by \$4.8 million to \$77.4 million: Administrative expenditures were reduced by \$2.3 million due to the scaling back of planning activities as the Central Mesa LRT project moved from the planning phase into the capital design phase. Passenger Operations Service expenses were reduced by \$1.9 million due to cost savings initiatives adopted in response to current economic conditions. Depreciation expense reduced from \$39.7 million to \$39.2 million for the year.

In fiscal year 2011, Non Operating expenses were down by \$68.0 million, primarily caused by reductions in distributions to Member Cities due to the phasing out of federal funds reimbursements for the CPEV 20 mile project.

Capital contributions totaling \$59.5 million consist of Member City Contributions (\$2.7 million), FTA capital grants (\$7.3 million) and Public Transportation Funds (\$49.6 million). With the completion of the CPEV 20 mile project being the largest factor, Member City Contributions decreased by \$28.5 million and Federal Capital Grants were decreased by \$55.3 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, 2011 and 2010**

	2011	2010	Change	Percent Change
Operating revenues:				
Contributions from Member Cities	\$ 19,430,008	\$ 25,964,781	\$ (6,534,773)	-25.2%
Passenger Fares	10,238,281	9,256,913	981,368	10.6%
FTA Operating Grants	240,000	222,519	17,481	7.9%
Other Revenues	908,728	103,410	805,318	778.8%
Operating revenues	<u>30,817,017</u>	<u>35,547,623</u>	<u>(4,730,606)</u>	<u>-13.3%</u>
Operating expenses:				
Administrative	7,213,806	9,540,355	(2,326,549)	-24.4%
Passenger Operations Service	31,020,111	32,964,701	(1,944,590)	-5.9%
Depreciation	39,176,737	39,685,152	(508,415)	-1.3%
Operating expenses	<u>77,410,654</u>	<u>82,190,208</u>	<u>(4,779,554)</u>	<u>-5.8%</u>
Operating income (loss)	(46,593,637)	(46,642,585)	48,948	-0.1%
Non-operating revenues (expense)	<u>(33,259,151)</u>	<u>(101,267,750)</u>	<u>68,008,599</u>	<u>-67.2%</u>
Deficiency before Capital Contributions	(79,852,788)	(147,910,335)	68,057,547	-46.0%
Capital Contributions	59,492,897	138,786,197	(79,293,300)	-57.1%
Increase (Decrease) in Net Assets	(20,359,891)	(9,124,138)	(11,235,753)	123.1%
Net assets, July 1	<u>1,178,732,528</u>	<u>1,187,856,666</u>	<u>(9,124,138)</u>	<u>-0.8%</u>
<b>Net assets, June 30</b>	<b><u>\$ 1,158,372,637</u></b>	<b><u>\$ 1,178,732,528</u></b>	<b><u>\$ (20,359,891)</u></b>	<b><u>-1.7%</u></b>

**CAPITAL ASSETS AND LONG TERM DEBT**

**Capital Assets:**

The following table provides a breakdown of capital assets of METRO at June 30, 2011, 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, 2011 and 2010**

	2011	2010	Change
Buildings	\$ 92,484,544	\$ 95,047,845	\$ (2,563,301)
Guideway	537,014,911	548,218,379	(11,203,468)
Bridges	56,390,023	58,440,569	(2,050,546)
Operation Control Center	10,754,123	11,145,181	(391,058)
Passenger Stations & Facilities	93,454,131	96,296,602	(2,842,471)
Park and Ride Facilities	33,909,949	32,504,345	1,405,604
Electric Power Substations	79,858,902	83,413,644	(3,554,742)
Signal and Communication System	42,495,843	44,924,177	(2,428,334)
Computers & software	-	179,859	(179,859)
Furniture & fixtures	209,121	370,110	(160,989)
Revenue Vehicles / Support Service Vehicles	195,412,137	204,806,824	(9,394,687)
Non-Revenue Vehicles	1,056,448	733,227	323,221
Equipment	9,131,945	9,993,522	(861,577)
Construction in Progress	32,911,926	27,747,360	5,164,566
<b>Net Capital Assets</b>	<b><u>\$ 1,185,084,002</u></b>	<b><u>\$ 1,213,821,644</u></b>	<b><u>\$ (28,737,642)</u></b>

As of June 30, 2011, METRO had \$1,185 million invested in capital assets, net of accumulated depreciation. There was a net decrease in capital assets, net of accumulated depreciation, of \$28.7 million from June 30, 2010; primarily resulting from a depreciation charge of \$39.2 million for the Light Rail System infrastructure offset by continuing capital expenditures for the wrap up of the 20 mile LRT construction project and by Construction in Progress design expenses for the Central Mesa Extension LRT Project.

**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 the payments due from METRO commencing in 2011. In June of 2011, METRO made the first \$10.0 million scheduled payment under the lease. The capital lease obligation at June 30, 2011 includes \$32,186,000 of remaining principal and \$8,334,013 accrued interest totaling \$40,520,013. 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 2012 total operating and capital budget is \$87.7 million, down \$2.3 million from fiscal year 2011's amended 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 Project (down \$14.2 million). Offsetting this reduction are increases to the capital budgets for the LRT extensions: (NW Extension up \$2.8 million, Central

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

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Mesa extension up \$6.2 million and Tempe Streetcar up \$4.3 million).

On the operating side, METRO's FY12 budget is \$44.3 million, down \$0.1 million versus fiscal year 2011. Revenue Operations costs are programmed to increase with the increasing maintenance activities required to maintain a state of good repair. Future project development costs are reducing by \$1.5 million with the completion of the Tempe Streetcar planning work.

**Comparison of Annual Expenditure Budgets**  
**Fiscal Year 2012 vs. 2011**

<b>Uses of Funds</b>	<b>FY 2012 Adopted (\$,000)</b>	<b>FY 2011 Amended (\$,000)</b>	<b>Change (\$,000)</b>
<b>Operating Activities:</b>			
Revenue Operations	35,086	33,721	1,365
Future Project Development	8,146	9,619	(1,473)
Agency Operating Budget	1,083	1,012	71
	<u>44,315</u>	<u>44,352</u>	<u>(37)</u>
<b>Capital Projects:</b>			
20-Mile METRO Initial Segment	5,301	19,503	(14,202)
Northwest Extension	8,573	5,798	2,775
Non-Prior Rights Utilities Relocations	2,639	246	2,393
Other Capital Projects:			-
Central Mesa Extension	16,525	10,277	6,248
South Tempe Streetcar	4,262	-	4,262
CNPAs - 20-Mile Initial Segment	-	2,461	(2,461)
ARRA - Phoenix P& R Improvements	-	3,113	(3,113)
ARRA - RPTA Ariz Avenue BRT	-	347	(347)
Systemwide Improvements	675	1,171	(496)
Subtotal Capital before Debt Service	<u>37,975</u>	<u>42,916</u>	<u>(4,941)</u>
<b>Capital Project Debt Service:</b>			
Debt Service - Interest	2,750	2,750	-
Debt Service - Principal	2,664	-	2,664
<b>Total Uses of Funds</b>	<u><u>87,704</u></u>	<u><u>90,018</u></u>	<u><u>(2,314)</u></u>

In fiscal year 2012 METRO will commence design work on the Tempe Streetcar Extension. Expenses during the year are anticipated to reach \$4.3 million pending necessary approvals from federal funding sources to enter preliminary engineering 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, 2011**

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**Assets**

Current Assets:

Cash and Investments	\$ 15,271,127
Receivables, Net	188,049
Due from Other Governments	11,037,334
Inventory	13,330,817
Restricted Assets	454,952
Other Assets	538,785
Total Current Assets	<u>40,821,064</u>

Noncurrent Assets:

Capital Assets, not being depreciated	32,911,926
Capital Assets, net of accumulated depreciation	<u>1,152,172,076</u>
Total Noncurrent Assets	<u>1,185,084,002</u>
Total Assets	<u>1,225,905,066</u>

**Liabilities**

Current Liabilities:

Accounts Payable	10,673,109
Labor Compliance Withholding	21,903
Other Accrued Expenses	237,889
Compensated Absences	385,397
Capital Lease Obligation - Current portion	10,000,000
Reserve for General Liability Claims	306,764
Due to Other Governments	6,566,964
Unearned Revenue	1,210,711
Member Cities Deposits	7,210,064
Total Current Liabilities	<u>36,612,801</u>

Noncurrent Liabilities:

Compensated Absences	399,615
Capital Lease Obligation	22,186,000
Accrued Interest Payable	<u>8,334,013</u>
Total Liabilities	<u>67,532,429</u>

**Net Assets**

Invested in Capital Assets, Net of Related Debt	1,153,352,954
Unrestricted	<u>5,019,683</u>
Total Net Assets	<u>\$ 1,158,372,637</u>

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

**Valley Metro Rail, Inc.**Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Fiscal Year Ended June 30, 2011

<b>Operating Revenues:</b>	
Contributions from Member Cities	\$ 19,430,008
Passenger Fares	10,238,281
Receipts from Federal Operating Grants	240,000
Other Revenues	908,728
Total Operating Revenues	<u>30,817,017</u>
<b>Operating Expenses:</b>	
Administrative	7,213,806
Passenger Operations Service	31,020,111
Depreciation	39,176,737
Total Operating Expenses	<u>77,410,654</u>
<b>Operating Income / (Loss)</b>	<u>(46,593,637)</u>
<b>Non-Operating Revenue / ( Expense ):</b>	
Federal Transit Administration Operating Grants	2,118,259
Public Transportation Funds	8,678,822
Distributions to Member Cities	(38,400,636)
Private Utilities Relocations	(3,732,886)
Interest on Capital Lease Obligation	(2,083,503)
Other Non-Operating Income	160,757
Interest Income	36
Total Non-Operating Revenue / ( Expense )	<u>(33,259,151)</u>
<b>Deficiency Revenues under Expenses</b>	<u>(79,852,788)</u>
<b>Capital Contributions:</b>	
Capital Contributions from Member Cities	2,651,494
Public Transportation Funds Capital	49,586,095
Federal Transit Administration Capital Grants	7,255,308
Total Capital Contributions	<u>59,492,897</u>
<b>Changes in Net Assets</b>	(20,359,891)
<b>Net Assets, Beginning of Period</b>	<u>1,178,732,528</u>
<b>Net Assets, End of Period</b>	<u>\$ 1,158,372,637</u>

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

**Valley Metro Rail, Inc.**  
Statement of Cash Flows  
Fiscal Year Ended June 30, 2011

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<b>Cash Flows from Operating Activities</b>	
Receipts from Member Cities	\$ 21,331,719
Receipts from Federal Operating Grants	240,000
Receipts from Fare Revenues	10,238,281
Other Revenues	1,054,388
Payments for Payroll Related Expenses	(7,124,424)
Payments to Suppliers	(26,866,936)
Net Cash Used in Operating Activities	<u>(1,126,972)</u>
<b>Cash Flows from Non-Capital Financing Activities</b>	
Receipts from FTA Non-Capital Grants	1,043,568
Receipts from Regional Public Transit Authority	6,766,263
Payments for Private Utility Relocations	(511,060)
Net Cash Provided by Non-Capital Financing Activities	<u>7,298,771</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Capital Contributions from Member Cities	14,403,457
Distributions to Member Cities	(99,650,539)
Receipts from FTA Capital Grants	63,814,522
Receipts from Regional PTF for Capital	53,248,257
Payments for Inventory	(546,188)
Payments for Capital Assets	(21,149,845)
Net Cash Provided by Capital and Related Financing Activities	<u>119,664</u>
<b>Net Increase in Cash and Cash Equivalents</b>	6,291,463
Cash and Cash Equivalents, Beginning of Year	8,979,664
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 15,271,127</u>
<b>Reconciliation of Operating Income / (Loss) to Net Cash Used in Operating Activities</b>	
Operating Income / (Loss)	\$ (46,593,637)
Adjustments to Reconcile Operating Income / (Loss) to Net Cash Used in Operating Activities:	
Depreciation	39,176,737
(Increase) Decrease in Assets:	
Accounts Receivable	259,348
Due from Other Governments	2,646,312
Inventory	(1,004,901)
Other Assets	152,600
Increase (Decrease) in Liabilities:	
Accounts Payable	1,810,105
Compensated Absences	29,237
Other Accrued Expenses	(139,400)
Due to Other Governments	(30,681)
Reserve for General Liability Claims	(194,236)
Unearned Revenue	(15,724)
Member Cities' Deposits	2,777,268
<b>Net Cash Used in Operating Activities</b>	<u>\$ (1,126,972)</u>

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

## 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 government entity with a nonprofit status 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, certificates of deposit, and the Local Government Investment Pool. 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**

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. Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The prepaid items are included in Other Assets under Current Assets on the Statement of Net Assets.

**i. 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.

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.

**Valley Metro Rail, Inc.**

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2011

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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, Rail Operations, 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.

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

**j. Allocation of Costs to Member Cities**

Design and construction costs for the 20 mile Central Phoenix East Valley Light Rail System 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.

Design and construction costs for future LRT extensions are funded based upon Design and Construction Agreements which are executed in accordance with the adopted Transit Life Cycle Plan.

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.

Passenger Operations Service Expenses are funded by the Member Cities according to the ratio of LRT route mileage currently in service. Member Cities also contribute amounts to fund local security costs related to fare inspection, on-board security and park and ride security within their respective jurisdictions.

**k. 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 expenses during the reporting financial period. Actual results could differ from these estimates.

**l. Net Assets**

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

**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 actual operating revenues and expenses versus original budget and final budget is presented as supplementary information. See Page 24.

**3. Cash and Investments**

Cash deposits and investments at June 30, 2011, consisted of the following:

Cash on hand	\$ 14,968,574
Insurance Trust Fund	<u>302,553</u>
Total cash and investments	<u>\$ 15,271,127</u>

METRO has deployed Ticket Vending Machines (TVM's) which contain coin and bill vaults to accommodate the purchase of fares. At June 30, 2011, the total cash contained in the coin and bill vaults totaled \$137,314.

METRO's bank deposits at June 30, 2011, had a carrying value of \$14,831,260 and the bank ledger balance was \$15,057,050. The difference of \$225,790 represents deposits in transit and outstanding checks.

The Self Insurance Reserve Trust Account totaling \$302,553 was covered by collateral held by the pledging financial institution in METRO's name.

*Custodial Credit Risk* – Custodial credit risk is the risk that in the event of bank failure METRO's deposits may not be returned. METRO does not have a deposit policy for custodial credit risk. All of METRO's bank deposits are in non-interest bearing accounts. At year end, all of METRO's bank deposits were covered under the FDIC.

*Interest Rate Risk*. METRO's formal investment policy limits type of investment as a means of managing its exposure to fair value losses arising from increasing interest rates. During FY 2011 all investment durations were shorter than 90 days.

*Credit Risk*. State Statutes and METRO's Investment Policy authorize METRO to invest in bank demand deposit accounts and obligations of the U.S. Treasury.

*Concentration of Credit Risk*. METRO's Investment Policy limits the total investments by type of account including, General Operating, Imprest Fund, Self-Insurance Reserve and TVM Credit Card. At June 30, 2011, METRO maintains all available cash in these accounts.

**4. Accounts Receivable and Due From Other Governments**

All receivable balances at June 30, 2011 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 (\$5.7 million) due from the City of Phoenix as Grantee of Federal Funds, PTF receivable (\$4.9 million) due from Regional Public Transportation Authority (RPTA), and miscellaneous receivables (\$ 0.4 million).

City of Phoenix (Grantee of Federal Funds)	\$ 5,720,519
Public Transportation Funding	4,855,355
City of Mesa	12,742
City of Phoenix	245,068
City of Tempe	61,937
Maricopa Association of Governments	100,184
Regional Public Transportation Authority	41,530
Total Due from Other Governments	<u>\$ 11,037,334</u>

Public Transportation Funding is discussed more fully in Note 17.

The amount due from Regional Public Transportation Authority is related to the Local Government Investment Pool as discussed more fully in Note 14.

**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 \$454,952 are set-aside for use in the upcoming fiscal year for the acquisition of parts and 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, 2011

**6. Capital Assets**

Capital asset and construction in progress activity for the year ended June 30, 2011 were as follows:

	<u>Balances, June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances, June 30, 2011</u>
Nondepreciable assets:				
Construction in progress	\$ 27,747,360	\$ 10,231,874	\$ (5,067,308)	\$ 32,911,926
Depreciable assets:				
Buildings	102,532,106			102,532,106
Guideway	565,173,586	105,268		565,278,854
Bridges	61,516,388			61,516,388
Operation Control Center	11,731,770			11,731,770
Passenger Stations & Facilities	101,364,840	585,110		101,949,950
Park and Ride Facilities	36,115,939	3,900,000		40,015,939
Electric Power Substations	88,737,919			88,737,919
Signal and Communication System	48,566,678			48,566,678
Computers & software	1,297,023	46,064		1,343,087
Furniture & fixtures	1,126,926			1,126,926
Revenue Vehicles	219,803,204			219,803,204
Non-Revenue Vehicles	1,947,704	103,515	(27,940)	2,023,279
Equipment	12,238,126	547,378		12,785,505
Total depreciable assets at historical cost	<u>1,252,152,210</u>	<u>5,287,335</u>	<u>(27,940)</u>	<u>1,257,411,605</u>
Less accumulated depreciation for:				
Buildings	(7,484,260)	(2,563,303)		(10,047,563)
Guideway	(16,955,208)	(11,308,736)		(28,263,943)
Bridges	(3,075,819)	(2,050,546)		(5,126,365)
Operation Control Center	(586,589)	(391,058)		(977,647)
Passenger Stations	(5,068,237)	(3,427,582)		(8,495,820)
Park and Ride Facilities	(3,611,594)	(2,494,396)		(6,105,990)
Electric Power Substations	(5,324,275)	(3,554,742)		(8,879,017)
Signal Substations	(3,642,501)	(2,428,334)		(6,070,835)
Computers & software	(1,117,164)	(225,923)		(1,343,087)
Furniture & fixtures	(756,815)	(160,990)		(917,805)
Revenue Vehicles	(15,598,939)	(8,792,128)		(24,391,067)
Non-Revenue Vehicles	(611,921)	(370,044)	15,134	(966,831)
Equipment	(2,244,604)	(1,408,956)		(3,653,560)
Total accumulated depreciation	<u>(66,077,926)</u>	<u>(39,176,737)</u>	<u>15,134</u>	<u>(105,239,529)</u>
Total capital assets being depreciated	1,186,074,284	(33,889,402)	(12,806)	1,152,172,076
Business-type activities capital assets, net	<u>\$ 1,213,821,644</u>	<u>\$ (23,657,528)</u>	<u>\$ (5,080,114)</u>	<u>\$ 1,185,084,002</u>

**7. Member Cities' Deposits**

The member cities advance monies to cover the cost of operations plus the federal and local share of project costs. In addition, unpaid expenses to be funded by member contributions are accrued for each city. A summary of member cities' deposits at June 30, 2011 follows:

City of Chandler	\$ 102,192
City of Glendale	24,508
City of Mesa	259,221
City of Peoria	92,292
City of Phoenix	5,182,864
City of Tempe	1,548,987
	<u>\$ 7,210,064</u>

**8. Operating Leases**

METRO leases office space and small office equipment under various operating lease agreements. Total rent expenditures for these leases were \$1,227,901 for the fiscal year ended June 30, 2011. Future minimum lease payments under non-cancelable operating leases are as follows:

	<u>Year Ending June 30, 2011</u>
2012	\$ 1,289,818
2013	1,255,119
2014	1,242,611
2015	1,255,552
2016	1,282,658
	<u>\$ 6,325,758</u>

**9. Capital Lease Obligation**

METRO leases 14 Light Rail Vehicles (LRVs) under the terms of a Master Lease/Purchase Financing Agreement, with the City of Phoenix (as Lessor). The assets acquired through the capital lease are as follows:

Asset:	
Unspent Lease Proceeds	\$ 454,952
Spare Parts	1,635,840
Revenue Vehicles	40,095,208
Less Accumulated Depreciation	(4,009,521)
Total	<u>\$ 38,176,479</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 2011:

	<u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>	<u>Amount Due in One Year</u>
Capital Lease Obligation	<u>\$ 42,186,000</u>	<u>\$ -</u>	<u>\$ (10,000,000)</u>	<u>\$ 32,186,000</u>	<u>\$10,000,000</u>

Acceptance of the LRVs commenced the term of this agreement and obligated rent payments totaling approximately \$56,300,000. The first \$10,000,000 payment was made June 1, 2011, with succeeding payments due per the following schedule:

**Valley Metro Rail, Inc.**  
Notes to the Financial Statements (Continued)  
Fiscal Year Ended June 30, 2011

Schedule of Capital Lease Payable as of June 30, 2011

<u>Year ending June 30</u>	<u>Principal Payments</u>	<u>Principal Remaining</u>	<u>Interest</u>	<u>Total Obligation</u>
2011	\$ 10,000,000	\$ 32,186,000	\$ 8,334,013	* \$ 40,520,013
2012	10,000,000	22,186,000	2,827,876	
2013	10,000,000	12,186,000	1,954,759	
2014	12,186,000	-	1,013,886	
	<u>\$ 42,186,000</u>	<u>-</u>	<u>\$ 14,130,534</u>	*

\* Interest shown is accrued to date and future amounts payable

For Fiscal Year 2011, Capital Lease interest expense totaling \$2,083,503 was accrued under the Master Lease Agreement generating a total accrued interest to date of \$8,334,013. The Capital Lease obligation at June 30, 2011 includes \$32,186,000 principal and \$8,334,013 accrued interest for a total of \$40,520,013.

**10. Compensated Absences**

The following presents the changes in compensated absences for the fiscal year ended June 30, 2011:

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
Compensated absences	<u>\$ 755,775</u>	<u>\$ 137,067</u>	<u>\$ (107,830)</u>	<u>\$ 785,012</u>

The portion of compensated absences payable within one year is \$385,397.

**11. Due to Other Governments**

METRO receives employee services as well as Public Transportation Funds for capital project planning, design and construction from RPTA. As of June 30, 2011 METRO owed \$760,053 for payroll and fringe benefits; \$41,530 for an investment reserve (see Note 14); and \$5,765,381 for Federal grants reimbursable to RPTA for expenditures funded by the Public Transportation Fund.

Payroll and Fringe Benefits	\$ 760,053
NCFE reserve	41,530
Federal Grant Reimbursements	5,765,381
Total Due to RPTA	<u>\$ 6,566,964</u>

**12. 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, 2011, METRO had remaining contractual commitments for these services aggregating approximately \$55.9 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, 2011, METRO entered into approximately \$6.8 million additional contractual commitments.

**Valley Metro Rail, Inc.**  
Notes to the Financial Statements (Continued)  
Fiscal Year Ended June 30, 2011

<u>Contractor</u>	<u>Commitment</u>	<u>Spent-to-date</u>	<u>Remaining</u>
Kinkisharyo Int'l - Vehicle Procurement	\$ 117,691,301	\$ 117,294,330	\$ 396,971
Scheidt Bachmann - Fare Collection System	8,564,192	7,958,900	605,292
Various - Public Art Program	7,298,208	6,089,678	1,208,530
Alternative Concepts - Transportation Operations	45,900,288	26,365,784	19,534,504
Kinkisharyo Int'l - Vehicle Maintenance	27,347,507	18,572,129	8,775,378
Various - Operations & Maintenance	9,536,621	7,165,017	2,371,604
Various - Misc. Construction and Services	22,654,742	18,916,384	3,738,358
Various - Future Extensions	29,930,436	20,691,996	9,238,440
AE Com - NWExt	15,881,499	15,003,869	877,630
Jacobs - Central Mesa Extension Design	12,499,655	3,740,835	8,758,820
Various - Central Mesa Ext. Program Management	580,852	168,955	411,897
	<u>\$ 297,885,301</u>	<u>\$ 241,967,878</u>	<u>\$ 55,917,424</u>

### **13. 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. See schedule of insurance on page 39 and Note 15-Related Party Transactions.

METRO has received notice of general liability claims related to its operations. METRO's commercial insurance policies provide coverage against losses rising from the claims subject to policy deductible amounts. Such claims are evaluated and specific reserves are established to cover METRO's contingent risk of loss pending settlement with the parties involved. At June 30, 2011 the Reserve for General Liability Claims totaled \$306,764.

### **14. Contingencies**

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.

No collections were received from the NCFE receivable during fiscal year ended June 30, 2011. The \$41,530 receivable is recorded as due from other governments with an offsetting reserve of (\$41,530) recorded to due to other governments.

**15. Related Party Transactions**

All of the six member cities of METRO's Board of Directors are also member cities of the sixteen-member RPTA Board of Directors. The Board members of the cities of Tempe and Glendale represent their cities on both Boards. 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. Any payroll related liabilities including Compensated Absences are obligations of METRO due to RPTA. For the period July 1, 2010 through June 30, 2011, METRO incurred costs of \$7,153,661 for services provided by RPTA.

In September 2010, the METRO Board authorized the Chief Executive Officer (CEO) to enter into a sublease with the Regional Public Transportation Authority (RPTA) for a portion of the office space currently leased and occupied by METRO. Commencing in December 2010 and ending in June 2016, office space lease costs that METRO pays monthly to the landlord will be prorated and charged to RPTA based on square footage used by RPTA. The total sublease over the 66-month period is estimated to equal \$3,167,304. As of June 30, 2011, the remaining lease payments under the sublease agreement total \$2,897,746.

**16. 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, 2011, active plan members and METRO were each required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent retirement, 0.59 percent health plan, and 0.25 percent long-term disability) of the members' annual covered payroll. METRO's contribution to the System for the year ended June 30, 2011 and 2010 was \$542,211 and \$541,110 respectively, which was equal to the required contributions for the year.

Schedule of Retirement and Long Term Disability Benefits Accrued

Years ended June 30,	Retirement	Health Benefit	Long-Term	Total
	Fund	Supplement	Disability	
	Fund	Fund	Fund	Benefits
2011	\$ 495,971	\$ 32,478	\$ 13,762	\$ 542,211
2010	480,091	37,993	23,026	541,110
2009	454,638	59,126	28,702	542,466

**17. 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. Cash outlays for LRT Public Transportation Fund expenses during fiscal year 2011 totaled \$63,639,292 as summarized in the table below.

Public Transportation Fund Cash Expenditures (LRT Portion)  
Fiscal Year ended June 30, 2011

<u>LRT PTF Expenditures:</u>	<u>\$ In Millions</u>
Regional Transportation Plan Projects:	
Central Mesa LRT Extension	4.55
Systemwide Improvements	10.29
Non Prior Rights Utility Relocations:	
20 Mile Initial Segment	-0.19
Northwest Extension Phase I	0.71
Regional Asset Reimbursements:	
CPEV - 20 Mile Initial Segment	
Phoenix	24.16
Tempe	12.66
Mesa	1.58
Project Development and Planning	6.26
Debt Service	3.62
<u>Total LRT PTF Cash Expenditures</u>	<u>63.64</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. As of June 30, 2011, bond expenditures to date for the LRT portion of the program totaled \$ 43,475,920.

A blurred, grayscale photograph of a bus stop and a bus. The bus is in the center, moving from left to right, creating a motion blur effect. The bus stop is on the right side of the frame. The background shows a building and some trees, also blurred.

# 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, 2011

	Original	Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under)
<b>Operating Revenues:</b>				
Net Distributions to member cities	\$ (58,966,299)	\$ (56,610,092)	\$ (70,161,408)	\$ (13,551,317)
Passenger fares	9,097,839	9,497,839	10,238,281	740,442
Federal Transit Administration grants	76,661,200	75,151,436	70,864,107	(4,287,329)
Public Transportation Funds	60,786,782	60,728,550	57,752,197	(2,976,353)
MAG/RPTA Grants	1,000,000	1,000,000	1,012,720	12,720
Contributions from Others	250,000	250,000	389,982	139,982
Total operating revenues	88,829,521	90,017,733	70,095,879	(19,921,854)
<b>Operating Expenses:</b>				
Engineering and design consultants	7,373,753	8,252,759	4,480,747	(3,772,012)
Construction administration consultants	325,000	270,953	258,953	(12,000)
Planning and environmental consultants	7,523,450	5,196,450	2,951,220	(2,245,230)
Facilities Construction	10,785,916	16,397,961	3,110,110	(13,287,851)
Administrative	6,958,190	7,641,391	6,357,295	(1,284,096)
Equipment Purchases	758,025	920,400	485,611	(434,789)
Real estate/ROW Acquisition	10,836,239	9,506,239	9,246,401	(259,838)
Light Rail Vehicles	1,500,000	1,102,184	610,385	(491,799)
Private Utilities Relocation	25,000	1,241,930	3,732,886	2,490,956
Finance Costs	9,522,000	5,766,597	7,842,160	2,075,563
Rail Operations Expense	33,221,948	33,720,869	31,020,111	(2,700,758)
Total operating expenses	88,829,521	90,017,733	70,095,879	(19,921,854)

**Explanation of Differences between Budgetary Basis and GAAP Basis**

Total Operating Expenses - Budgetary Basis	\$ 70,095,879
Total Operating Expenses - GAAP Basis	77,410,654
Budgetary Operating Expenses in Excess of GAAP Operating Expenses	\$ (7,314,775)
Acquisition of Capital Assets (capitalized on a GAAP basis and expensed on a budgetary basis)	\$ 10,985,155
Member funded finance costs (budgeted expenses not included in GAAP basis)	3,011,096
Member-owned real estate/ROW acquisitions (budgeted expenses not included in GAAP basis)	9,246,401
RPTA PTF Bond Interest (budgeted expenses not recorded for GAAP basis)	2,747,561
Capital Lease Interest (budgeted expenses recorded nonoperating expense for GAAP basis)	2,083,503
Private Utilities Relocations (budgeted expenses recorded nonoperating expense for GAAP basis)	3,732,886
All Other Adjustments	55,360
Depreciation (GAAP expenses not included in budgetary basis)	(39,176,737)
Total Reconciling Items	\$ (7,314,775)

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 \$77.4 million, or \$7.3 million less than the budgetary basis costs of \$70.1 million. The primary differences between these two bases of reporting are: 1.) Capital project costs that are included in budgeted costs but added to Capital and Inventory Assets for GAAP purposes (\$11.0 million); 2.) Finance and real estate/ROW acquisition costs that are budgeted but not booked for GAAP purposes (\$3.0 and \$9.2 million); 3.) RPTA Bond Interest Expense that is included in the budget but not recorded on a GAAP basis (\$2.7 million); 4.) Capital Lease Interest and Private Utility Relocations that are recorded as non operating expenses (\$2.1 and \$3.7 million) and 5.) Depreciation included for GAAP but not budget (\$-39.2 million).



Interior of 2010 holiday train



# 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.

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.

<b>Contents</b>	<b>Page</b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how METRO's financial performance and well-being have changed over time.	26
<b>Revenue Capacity</b> METRO's principal source of operating revenues are contributions from Member Cities. With respect to capital projects, METRO receives federal grants and utilizes Public Transportation Funds administered by the Regional Public Transportation Authority (RPTA). (Refer to Note 17 in the Notes to the Financial Statements section.)	N/A
<b>Debt Capacity</b> METRO has no current bond indebtedness. See Notes to the Financial Statements; refer to Note number 17, Public Transportation Funding for information regarding revenue bonds issued by RPTA which provide funding for LRT capital expenditures. Refer to Note number 9, Capital Lease Obligation for information related to METRO's current debt obligations.	N/A
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which METRO's financial activities take place.	28
<b>Operating Information</b> 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.	34

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 01/02 through FY 10/11(1)

<b>Business-type activities</b>	<b>FY 01/02</b>	<b>FY 02/03</b>	<b>FY 03/04</b>	<b>FY 04/05</b>	<b>FY 05/06</b>	<b>FY 06/07</b>	<b>FY 07/08</b>	<b>FY 08/09</b>	<b>FY 09/10</b>	<b>FY 10/11</b>
Invested in capital assets (2)										
Buildings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,855,662	\$ 67,108,795	\$ 97,611,148	\$ 95,047,845	\$ 92,484,543
Guideway	-	-	-	-	-	-	-	545,989,800	548,218,379	537,014,911
Bridges	-	-	-	-	-	-	-	60,491,115	58,440,569	56,390,023
Operation Control Center	-	-	-	-	-	-	-	11,536,240	11,145,181	10,754,123
Passenger Stations & Facilities	-	-	-	-	-	-	-	96,272,225	96,296,602	93,454,131
Park and Ride Facilities	-	-	-	-	-	-	-	34,769,334	32,504,345	33,909,949
Electric Power Substations	-	-	-	-	-	-	-	86,707,115	83,413,644	79,858,902
Signal and Communication System	-	-	-	-	-	-	-	45,202,398	44,924,177	42,495,843
Computers & Software	67,247	76,160	203,648	171,226	108,076	949,273	852,789	574,791	179,859	-
Furniture & Fixtures	915	153,797	134,029	113,186	739,880	844,591	692,090	531,100	370,110	209,121
Revenue Vehicles (3)	-	-	-	-	-	3,246,541	116,875,456	164,031,893	163,521,294	163,681,089
Support/Service Vehicles (4)	28,981	22,168	10,488	188	188	706,809	646,471	587,896	-	-
Non-Revenue Vehicles	-	-	-	-	-	-	209,605	958,053	733,227	1,056,448
Equipment	-	3,018	4,202	2,754	497,319	995,075	1,222,755	8,214,895	9,993,522	9,131,945
Construction in Progress	-	-	56,989,473	235,618,498	459,034,837	698,209,539	895,953,882	27,776,412	27,747,360	32,911,926
Subtotal Invested in Capital Assets	\$ 97,143	\$ 255,143	\$ 57,341,840	\$ 235,905,852	\$ 460,380,300	\$ 773,807,490	\$ 1,083,561,843	\$ 1,181,254,415	\$ 1,172,536,114	\$ 1,153,352,954
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-	6,602,251	6,196,414	5,019,683
<b>Total business-type activities net assets</b>	<b>\$ 97,143</b>	<b>\$ 255,143</b>	<b>\$ 57,341,840</b>	<b>\$ 235,905,852</b>	<b>\$ 460,380,300</b>	<b>\$ 773,807,490</b>	<b>\$ 1,083,561,843</b>	<b>\$ 1,187,856,666</b>	<b>\$ 1,178,732,528</b>	<b>\$ 1,158,372,637</b>

**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.
- (3) Revenue Vehicles are shown net of depreciation and net of Capital Lease obligation.
- (4) In FY 09-10 Support Service Vehicles and Non-Revenue Vehicles were combined for presentation purposes.

**Valley Metro Rail, Inc.**  
Changes in Net Assets  
FY 01/02 through FY 10/11 (1)

	<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>	<u>FY 09/10</u>	<u>FY 10/11</u>
<b>Operating Revenues</b>										
Contributions from Member Cities (2)	\$ 5,323,908	\$ 28,353,274	\$ 14,141,126	\$ 27,692,841	\$ 75,672,696	\$ 156,033,959	\$ 143,276,140	\$ 13,490,504	\$ 25,964,781	\$ 19,430,008
Passenger Fares								3,371,104	9,256,913	10,238,281
Federal Transit Administration Operating Grants (2)	11,437,481	6,237,102	48,497,109	74,819,942	150,717,452	146,442,055	953,877	-	222,519	240,000
Sales Tax (RARF)	-	-	-	-	-	-	-	-	-	-
Public Transportation Funds (2)	-	-	-	-	11,700,029	57,160,186	58,315,376	-	-	-
Other Revenues								40,000	103,410	908,728
<b>Total operating revenues</b>	<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>	<u>35,547,623</u>	<u>30,817,017</u>
<b>Operating Expenses</b>										
Administration and Planning Services (3)	16,725,821	34,398,920	5,434,775	1,001,016	1,829,944	5,709,157	5,396,474	5,278,901	9,540,355	7,213,806
Passenger Operations Service								15,678,389	32,964,701	31,020,111
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	39,685,152	39,176,737
Total operating expenses	<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>	<u>82,190,208</u>	<u>77,410,654</u>
<b>Operating income (loss)</b>	<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>	<u>(46,642,585)</u>	<u>(46,593,637)</u>
<b>Non-Operating Revenues (Expense)</b>										
Federal Transit Administration Operating Grants								650,492	2,557,861	2,118,259
Public Transportation Funds								10,945,204	5,484,246	8,678,822
Other Non-Operating Income									142,025	160,757
Interest on Investments	45,490	29,980	943	80,162	100,888	102,888	91,519	-	15	36
Distributions to Member Cities								(20,078,532)	(106,249,903)	(38,400,636)
Private Utilities Relocations								(9,518,863)	965,013	(3,732,886)
Interest on Capital Lease obligation								(2,083,503)	(4,167,007)	(2,083,503)
Total non-operating revenues (expense)	<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>	<u>(101,267,750)</u>	<u>(33,259,151)</u>
<b>Capital Contributions</b>										
Federal Transit Administration Capital Grants	-	-	-	-	-	-	130,496,339	72,863,699	62,585,921	7,255,308
Contributions from Member Cities								25,381,955	31,156,572	2,651,494
Public Transportation Funds Capital								52,627,944	45,043,704	49,586,095
Donated Engineering (4)	-	-	-	77,109,027	-	-	-	-	-	-
Increase in net assets	<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>	<u>\$ (9,124,138)</u>	<u>\$ (20,359,891)</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 08/09, CP/EV local, federal and regional project funding was recorded as operating revenue.
- (3) 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.
- (4) 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.

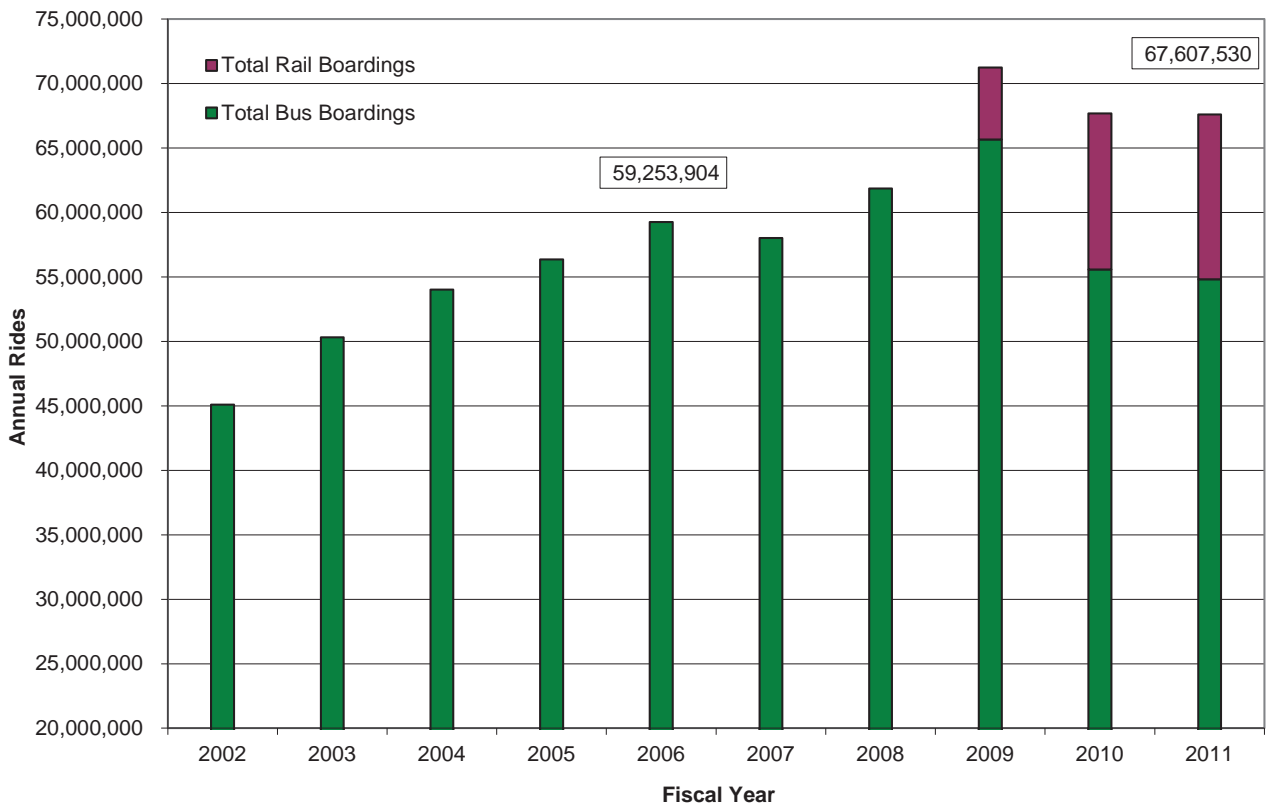
**Valley Metro Rail, Inc.**  
 Growth in Regional Transit Usage  
 Last Ten Fiscal Years

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<u>Fiscal Year</u>	<u>Boardings</u>	<u>Change</u>
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%
2010	67,693,003	-4.99%
2011	67,607,530	-0.13%

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

*Five Year Growth rate 14.1%*



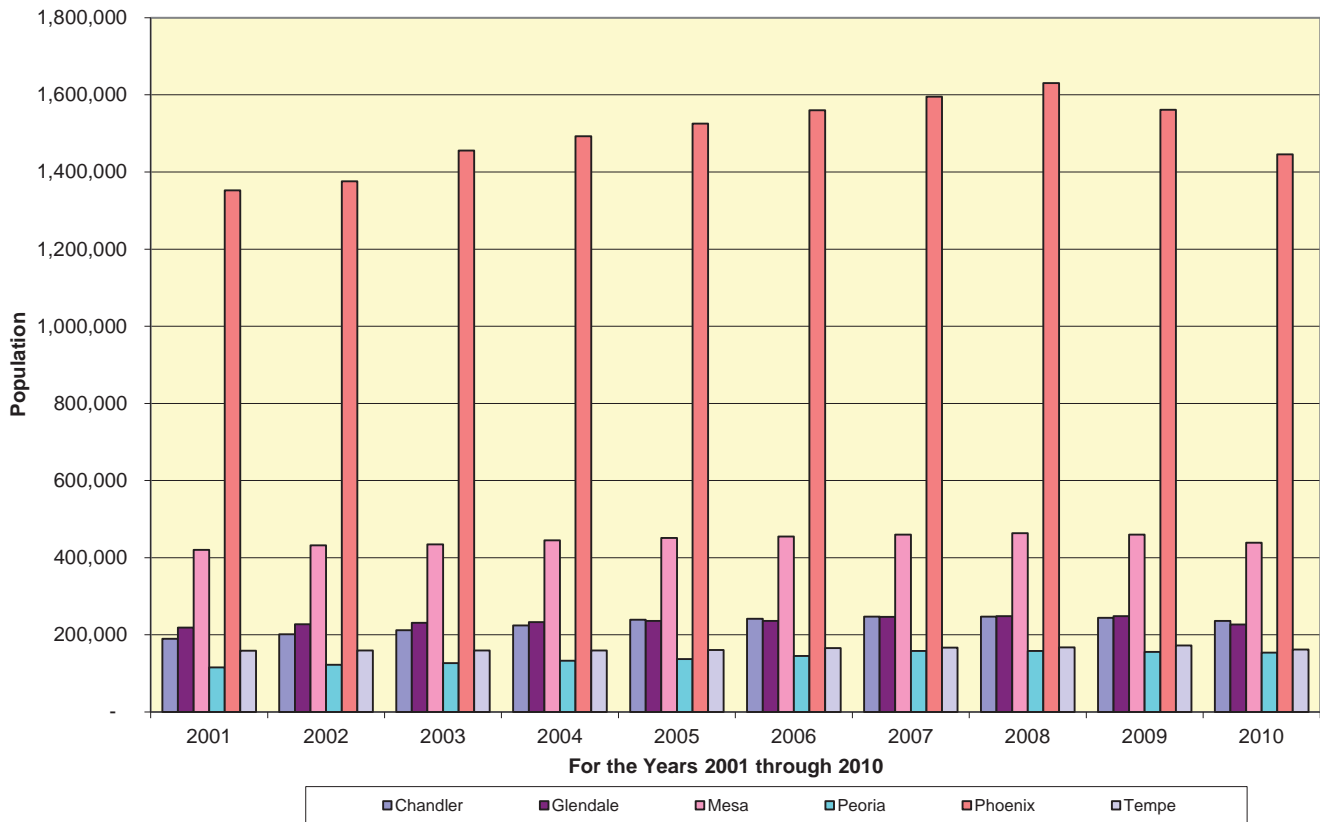
Source: Regional Public Transportation Authority

**Valley Metro Rail, Inc.**  
**Member Cities' Area Growth (Square Miles)**  
**Last Ten Fiscal Years**

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<u>Year</u>	<u>Chandler</u>	<u>Glendale</u>	<u>Mesa</u>	<u>Peoria</u>	<u>Phoenix</u>	<u>Tempe</u>
2001	189,498	218,812	420,525	115,432	1,352,394	158,625
2002	201,263	227,614	431,874	122,655	1,375,906	159,425
2003	211,984	231,288	434,585	126,815	1,455,440	159,426
2004	224,644	233,000	445,354	132,805	1,492,420	159,615
2005	238,930	235,987	451,223	137,045	1,525,400	160,820
2006	241,910	235,987	455,151	145,125	1,560,380	165,796
2007	247,100	246,382	460,155	158,227	1,595,260	166,625
2008	247,100	248,731	463,397	158,227	1,630,340	167,458
2009	244,376	248,435	459,682	155,560	1,561,485	172,641
2010	236,123	226,721	439,041	154,065	1,445,632	161,719

**Valley Metro Rail, Inc.**  
**Member Cities' Population Growth**



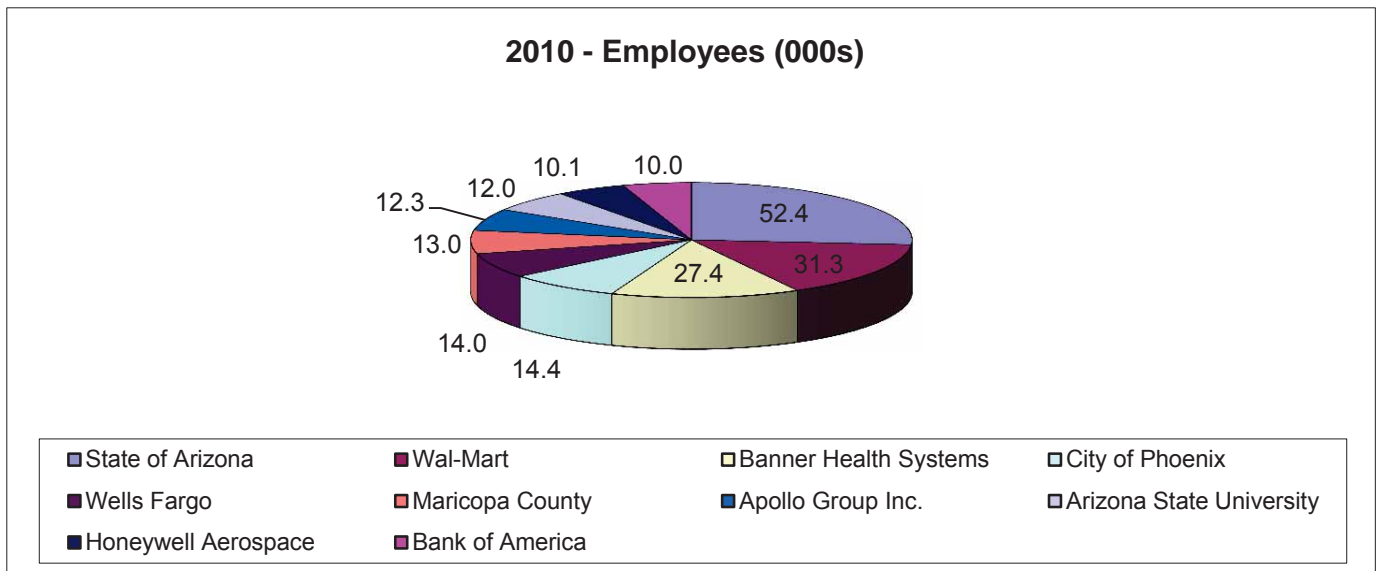
Source: Maricopa Association of Governments

# Valley Metro Rail, Inc.

## Top Employers in Maricopa County

For the Fiscal Year ended June 30, 2010 and June 30, 2001

Employer	2010			2001		
	Employees	Rank	% of Total	Employees	Rank	% of Total
State of Arizona	52,420	1	3.06%	59,348	1	3.82%
Wal-Mart Stores, Inc.	31,280	2	1.97%	13,800	6	0.89%
Banner Health Systems	27,431	3	1.39%	13,973	4	0.90%
City of Phoenix	16,375	4	1.03%	12,917	7	0.83%
Wells Fargo & Company	14,000	5	0.84%			
Maricopa County	12,996	6	0.84%	13,860	5	0.89%
Apollo Group Inc.	12,299	7	0.78%			
Arizona State University	12,043	8	0.76%			
Honeywell Aerospace	10,145	9	0.63%	17,500	2	1.13%
Bank of America	10,000	10	0.63%			
Motorola				15,500	3	1.00%
The Kroger Co.				9,837	8	0.63%
US Postal Service - Arizona District				9,756	9	0.63%
Raytheon Missile Systems				9,700	10	0.62%
<b>Total for Principal Employers</b>	<b>198,989</b>		<b>11.93%</b>	<b>176,191</b>		<b>11.34%</b>
<b>Total Employment in Maricopa Cty As of June 30</b>	<b>1,628,700</b>			<b>1,552,400</b>		

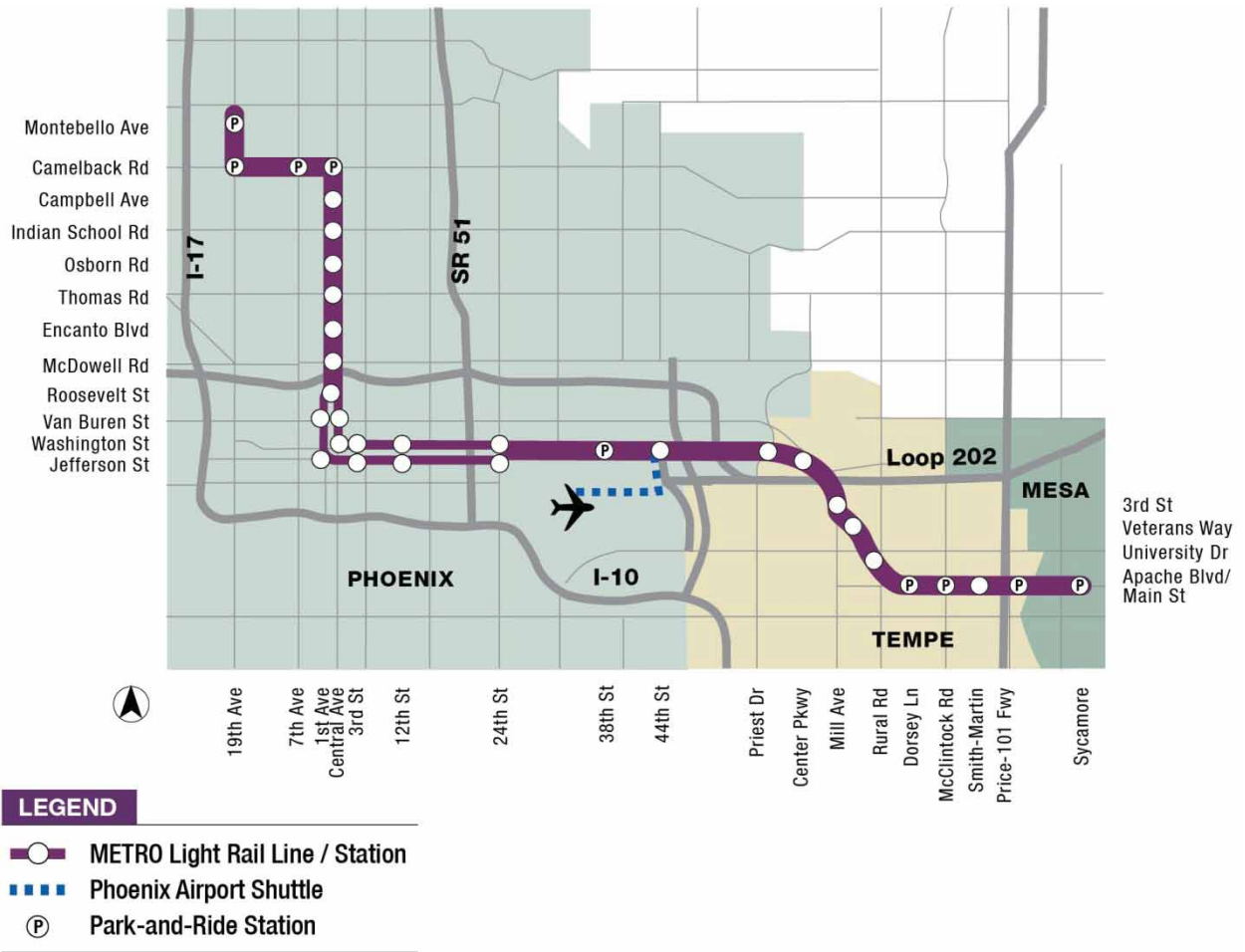


**Source:** Maricopa County

Phoenix Business Journal Book of Lists

Workforce Informer Arizona at [www.workforce.az.gov](http://www.workforce.az.gov) for total employed in Maricopa Cty

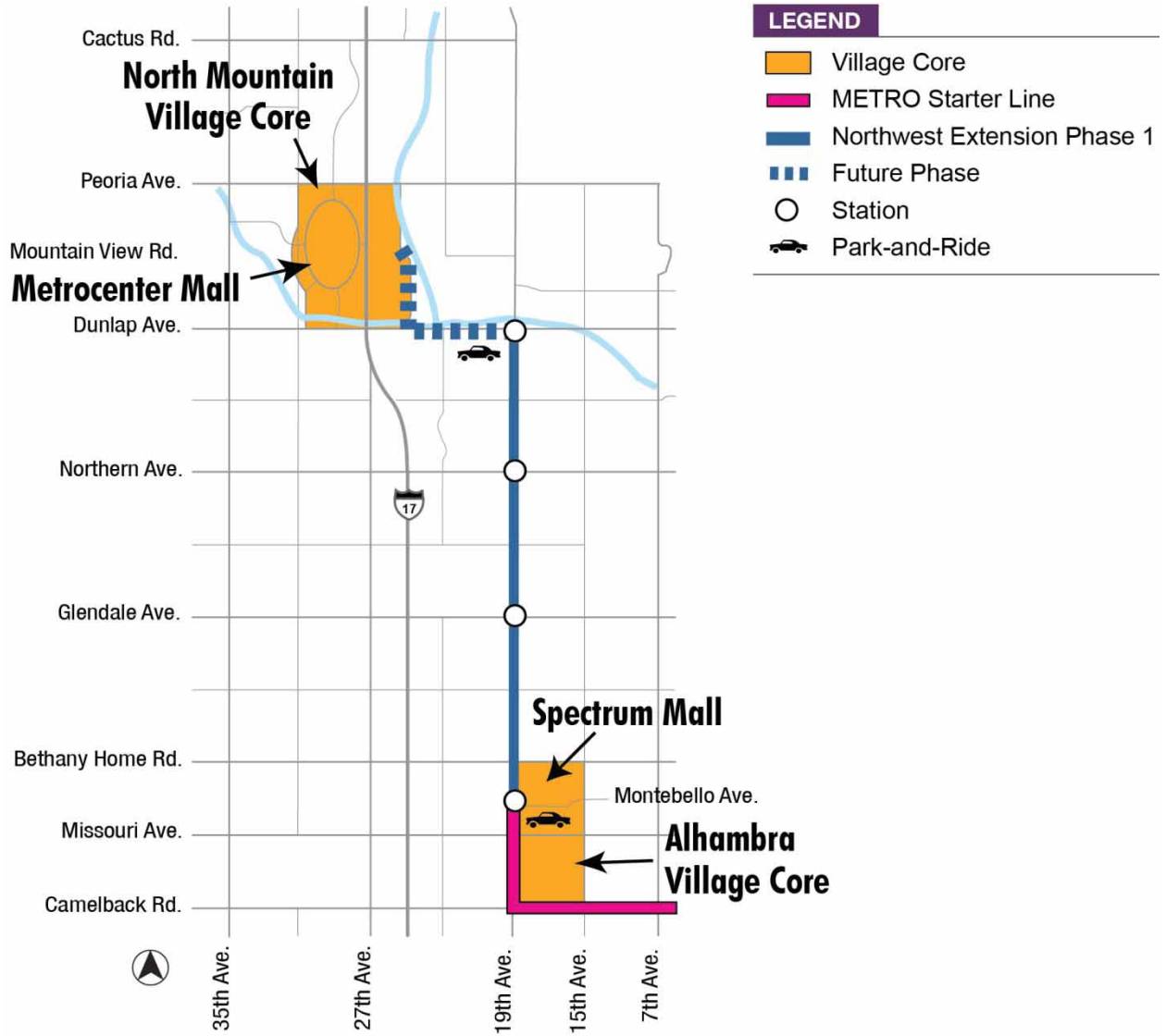
**Valley Metro Rail, Inc.**  
**Initial 20-Mile Segment**



**Initial 20-Mile Segment**

Source: Valley Metro Rail, Inc Project Development Division

**Valley Metro Rail, Inc.**  
Northwest Extension



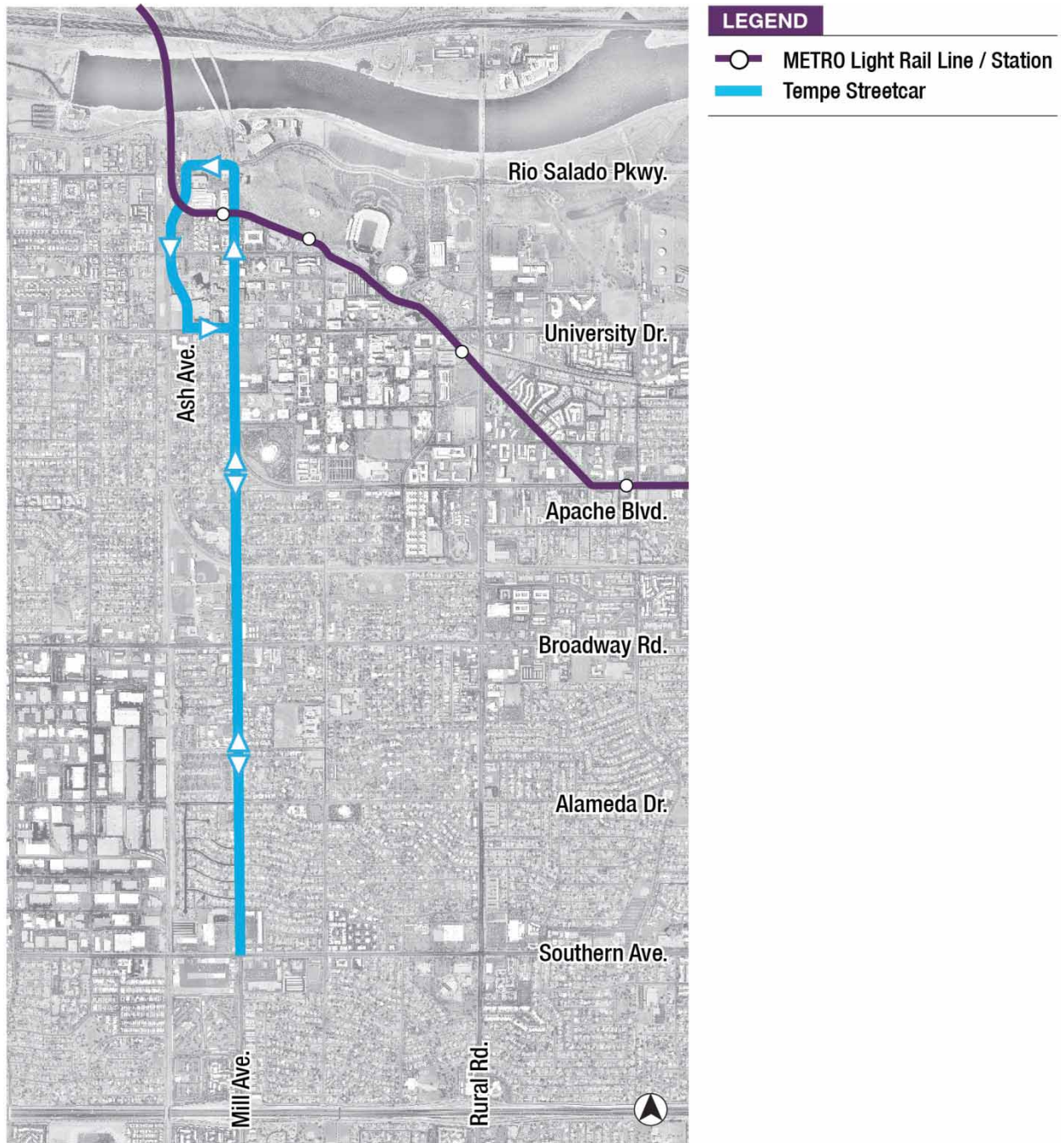
**Northwest Extension**

Source: Valley Metro Rail, Inc Project Development Division



## Central Mesa Light Rail Extension

Source: Valley Metro Rail, Inc Project Development Division



## Tempe Streetcar

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 2008	FY 2009	FY 2010	FY 2011
III	Administrative Support Assistant	1	1	1	1
IV	Accounting Technician	1	1	1	1
	Administrative Assistant	6	6	6	6
	Materials Handler	0	1	1	1
VI	Paralegal	1	1	1	1
	Track Maintainer	0	6	6	6
VII	Accountant I	1	1	2	2
	Executive Assistant	3	2	2	2
	Network Support Analyst	0	1	0	0
	Planner I	1	0	0	0
	Procurement Specialist	1	0	0	0
	Signal & Comm Systems Maintainer	0	6	6	6
	Utility Relocation Specialist	1	1	1	1
VIII	Lead Document Control Clerk	1	1	1	1
	Engineering Technician	0	0	1	1
	Executive Administrative Coordinator	0	1	1	1
	Information Technology Systems Specialist	1	1	1	1
	Maintenance Scheduling	0	1	1	0
	Materials/Warranty Coordinator	1	2	2	2
	Sr Communications Specialist	1	1	0	0
	Signal & Communications Syst Tech	0	4	4	4
	Traction Power Systems Technician	0	9	10	10
IX	Accountant II	1	1	1	0
	Area Coordinator	2	2	2	2
	Budget Analyst				1
	Contract Administrator	1	1	1	1
	Network Systems Engineer	0	1	1	1
	Planner II	1	2	1	1
	Supervisor, Facility Maintenance	0	1	1	1
	Supervisor, Track Maintenance	0	1	1	1
X	Engineer (Civil)	0	0	1	1
	Lead Technician	1	1	0	0
	Planner III	0	0	2	2
	Program Control Specialist	1	1	1	1
	Senior Contract Administrator	2	2	2	2
	Signals/Communications Maintenance Supervisor	0	1	1	1
	TES Supervisor	0	1	2	2

**Valley Metro Rail, Inc**  
**Full-Time Equivalent Positions**

Source: Valley Metro Rail, Inc Finance and Administration Division

Grade	RPTA Position Titles	Authorized FTEs			
		FY 2008	FY 2009	FY 2010	FY 2011
XI	Accountant III	0	0	0	1
	Public Arts Administrator	1	1	1	1
	Public Information Officer	0	1	1	1
	Rail DBE Program Manager	1	1	0	0
XII	Communications Manager	1	0	0	0
	Rail Marketing Manager	1	1	0	0
	Rail Public Involvement Manager	1	1	1	1
	Rail Real Estate Manager	1	1	0	0
	Rail Senior Engineer (PE)	1	1	0	0
	Rail Senior LRV Engineer (PE)	0	0	0	0
	Rail Senior Program Control Specialist	0	0	0	0
	Rail Utility Manager	1	1	1	1
XIII	Contracts and Procurement Manager	1	1	1	1
	Finance and Budget Manager	1	1	0	0
	Rail Design & Construction Manager	1	1	1	1
	Manager, Systems and Facility Maintenance	1	1	0	0
	Rail Capital Project Schedule Manager	1	1	1	1
	Rail Maintenance Manager	1	1	0	0
	Rail Operations Manager	1	1	0	0
	Rail Project Manager, Facilities Engineer	2	2	1	1
	Rail Project Manager, Planning	2	2	1	1
	Rail Quality Assurance Manager	0	0	1	0
XIV	Rail O & M Startup/Activation Manager	1	1	0	0
	Rail Safety and Security Chief	0	0	0	1
	Chief Maintenance Engineer	0	0	0	1
	Chief System Engineering Officer	1	1	1	1
	Chief Transportation Officer	0	0	1	0
XV	Rail Chief Operations Officer	0	0	0	1
	Rail Community & Government Relations Director	1	1	1	1
	Rail Finance & Administration Director	1	1	1	1
	Rail Safety, Security, and Quality Director	1	1	1	0
XVI	Rail Design & Construction Director	1	1	1	1
	Rail General Counsel	1	1	1	1
	Rail Operations & Maintenance Director	1	1	1	0
	Rail Project Development Director	0	1	1	1
ED	Rail Chief Executive Officer	1	1	1	1
		<u>57</u>	<u>91</u>	<u>85</u>	<u>84</u>

**Valley Metro Rail, Inc.**  
**Schedule of FY 2011 Adopted Pay Grades and Ranges**  
For the Fiscal Year Ended June 30, 2011

<b>Grade</b>	<b>RPTA Position Titles</b>	<b>Pay Range</b>		
III	Administrative Support Assistant	\$27,626	-	\$41,439
IV	Accounting Technician	\$30,696	-	\$46,043
	Administrative Assistant	\$30,696	-	\$46,043
	Lead Document Control Clerk	\$30,696	-	\$46,043
	Materials Handler	\$30,696	-	\$46,043
VI	Paralegal	\$37,142	-	\$55,712
	Track Maintainer	\$37,142	-	\$55,712
VII	Accountant I	\$40,856	-	\$61,284
	Executive Assistant	\$40,856	-	\$61,284
	Network Support Analyst	\$40,856	-	\$61,284
	Planner I	\$40,856	-	\$61,284
	Procurement Specialist	\$40,856	-	\$61,284
	Signal/Comm Maintainer	\$40,856	-	\$61,284
	Utility Relocation Specialist	\$40,856	-	\$61,284
VIII	Lead Document Control Clerk	\$44,942	-	\$67,413
	Engineering Technician	\$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
	Signal/Comm Systems Technician	\$44,942	-	\$67,413
	Traction Power Systems Technician	\$44,942	-	\$67,413
IX	Accountant II	\$49,435	-	\$74,154
	Area Coordinator	\$49,435	-	\$74,154
	Budget Analyst	\$49,435	-	\$74,154
	Contract Administrator	\$49,435	-	\$74,154
	Network Systems Engineer	\$49,435	-	\$74,154
	Planner II	\$49,435	-	\$74,154
	Supervisor, Facility Maintenance	\$49,435	-	\$74,154
	Supervisor, Track Maintenance	\$49,435	-	\$74,154
X	Engineer (Civil)	\$54,380	-	\$81,569
	Lead Technician	\$54,380	-	\$81,569
	Planner III	\$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

Source: Valley Metro Rail, Inc Finance and Administration Division

**Valley Metro Rail, Inc.**  
**Schedule of FY 2011 Adopted Pay Grades and Ranges**  
For the Fiscal Year Ended June 30, 2011

<b>Grade</b>	<b>RPTA Position Titles</b>	<b>Pay Range</b>	
XI	Accountant III	\$59,818	- \$89,726
	Public Arts Administrator	\$59,818	- \$89,726
	Public Information Officer	\$59,818	- \$89,726
	Rail DBE Program Manager	\$59,818	- \$89,726
XII	Rail 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
	Rail Design & Construction Manager	\$72,379	- \$108,568
	Manager, Systems and Facility Maintenance	\$72,379	- \$108,568
	Rail Capital Projects Schedule Manager	\$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
Rail Quality Assurance Manager	\$72,379	- \$108,568	
XIV	Rail O & M Startup/Activation Manager	\$81,992	- \$122,987
	Rail Safety and Security Chief	\$81,992	- \$122,987
	Chief Systems Engineering Officer	\$81,992	- \$122,987
	Chief Transportation Officer	\$81,992	- \$122,987
XV	Rail Community & Government Relations Director	\$100,202	- \$150,304
	Rail Finance & Administration Director	\$100,202	- \$150,304
	Rail Safety, Security, and Quality Director	\$106,589	- \$143,874
XVI	Rail Design & Construction Director	\$112,627	- \$168,941
	Rail Operations & Maintenance Director	\$117,246	- \$165,355
	Rail Project Development Director	\$112,627	- \$168,941
GC	Rail General Counsel	\$117,246	- \$175,870
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, 2011

**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:

<b>Policy #</b>	<b>Coverage</b>	<b>Limits</b>	<b>Policy Term</b>	<b>Premium</b>	<b>Carrier</b>
KTKCMB2700C768610	Commercial Property	131,687,981 TIV 10,000 Deductible 25,000,000 Flood & EQ 100,000 Flood & EQ Deductible	12/1/2010-11	\$102,713	Travelers Indemnity Co.
QT6605833B340TIL10	Inland Marine - Rolling Stock	150,660,000 Limit 100,000 Deductible	12/1/2010-11	\$165,726	Travelers P&C Insurance Co.
QT6605833B352TIL10	Inland Marine - Town Lake Bridge	22,581,224 TIV 5,000,000 Flood & EQ 100,000 Deductible	12/1/2010-11	\$30,711	Travelers P&C Insurance Co.
I21112951004	DIC - Excess Flood and EQ for Town Lake Bridge	15,000,000 per Occurrence x/o 5,000,000 underlying	12/1/2010-11	\$35,932	ACE Fire Underwriters Insurance Co.
CCP006379805	Commercial Crime	1,000,000 Limit 10,000 Deductible	12/1/2010-11	\$2,281	Crime Fidelity & Deposit Co. of Maryland
BA1153P23309CAG	Auto Liability and Physical Damage	300,000 CSL 2,000 Comp & Coll Deductible except 5,000 Deductible for Brandt and 2009 International	12/1/2010-11	\$47,736	Commercial Auto Charter Oak Fire Insurance Co. (Travelers)
N1A3RL0000066-01	Primary Excess Liability	10,000,000 x/o 250,000 SIR	12/1/2010-11	\$375,777	Princeton Excess & Surplus Lines Insurance Co.
71P30000014-101	Excess Liability	10,000,000 x/o 10,000,000	12/1/2010-11	\$78,371	Everest National Insurance Co.
03051169	Excess Liability	15,000,000 x/o 20,000,000	12/1/2010-11	\$57,472	Allied World National Assurance Co.
EAU736241/01/2010	Excess Liability	25,000,000 x/o 35,000,000	12/1/2010-11	\$101,794	AXIS Surplus Insurance Co.

Valley Metro Rail, Inc.  
**Schedule of Insurance Coverage (Concluded)**  
 For the Fiscal Year Ended June 30, 2011

Source: Valley Metro Rail, Inc Contracts and Procurement Division

Policy #	Coverage	Limits	Policy Term	Premium	Carrier
G24100868002	Excess Liability	15,000,000 x/o 85,000,000	12/1/2010-11	\$31,500	Westchester Surplus Lines Insurance Co.
UXP003631401	Excess Liability	25,000,000 x/o 60,000,000	12/1/2010-11	\$79,980	Arch Insurance Co.
181623	Workers Comp & Employers Liability	WC - Statutory EL - 1,000,000	3/1/2010-11	-	SCF Premier (SCF of Arizona); Standard Fire Insurance Co. (Travelers)
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.

**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

**March 2010** - Mesa City Council approves a 3.1 mile extension of the LRT system.

**August 2010** - FTA approves Central Mesa LRT alignment for project development as the next step toward federal funding.

**October 2010** - Tempe City Council approves Mill Avenue Alignment for modern streetcar

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