

Valley Metro

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2005



Regional Public Transportation Authority
Phoenix, Arizona

Valley Metro

Regional Public Transportation Authority

Phoenix, Arizona

Comprehensive Annual Financial Report and Single Audit Reports

Fiscal Year Ended June 30, 2005

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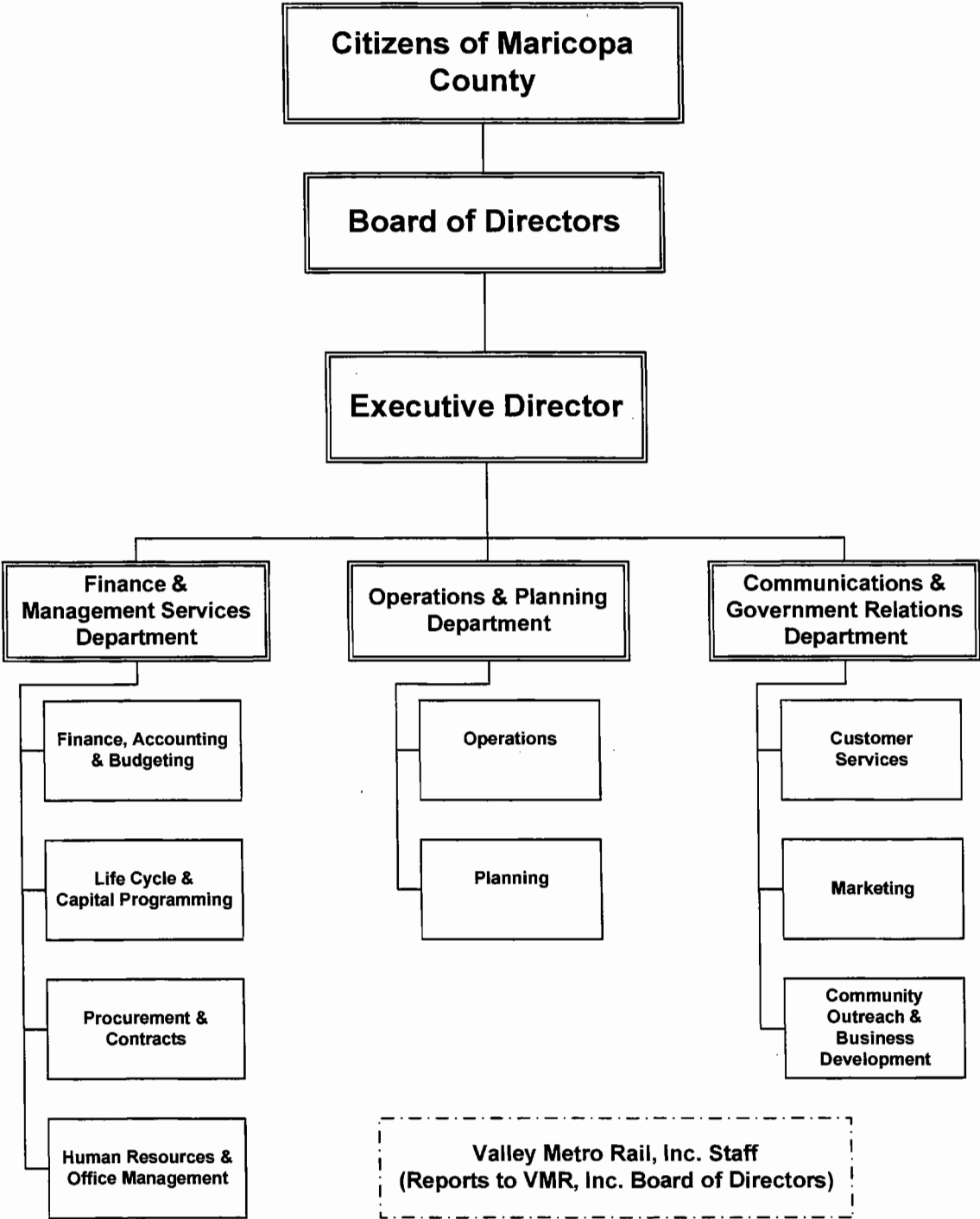
Executive Director's Office

David A. Boggs, Executive Director
Bryan Jungwirth, Deputy Executive Director, Communications & Government
Relations
Sylvia Simpson, Deputy Executive Director, Finance & Management Services
Pat Dillon, Executive Assistant
Carol Lightbourne, Executive Assistant

Prepared By

Finance & Management Services Department

Valley Metro
Regional Public Transportation Authority
Organization Chart FY 2004/2005



Regional Public Transportation Authority
Table of Contents
Comprehensive Annual Financial Report and Single Audit Reports
Fiscal Year Ended June 30, 2005

	<u>Page</u>
<u>Introductory Section</u>	
Letter of Transmittal	iii
Certificate of Achievement for Excellence in Financial Reporting	ix
<u>Financial Section</u>	
Independent Auditors' Report	1
Management's Discussion and Analysis (required supplementary information)	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Fund Financial Statements:	
Balance Sheet, with Reconciliation to the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Budgetary Comparison Statements - General Fund and Major Special Revenue Fund	
General Fund	21
Transportation Demand Management Fund	22
Proprietary Fund Financial Statements:	
Statement of Net Assets	23
Statement of Revenues, Expenses and Changes in Fund Net Assets	24
Statement of Cash Flows	25
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	26
Statement of Changes in Fiduciary Net Assets	27
Notes to the Financial Statements	28
<u>Other Supplementary Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Nonmajor Special Revenue Funds:	
Transit Planning Fund	48
Capital and Other Grants Fund	49
Schedule of Operations - Budget and Actual - Proprietary Funds:	
Enterprise Funds:	
Transit Service Operations Fund	50
Regional Customer Services Fund	51
Valley Metro Rail	52
Schedule of Capital Assets by Functions and Activities	53
Schedule of Changes in Capital Assets by Functions and Activities	54
<u>Statistical Section</u>	
Schedule of Insurance Coverage	55
General Governmental Operating Expenditures by Function	56
General Governmental Operating Revenues by Source	58
Performance Statistics	60
Position Listing and Salary Ranges	61
Miscellaneous Statistics	62

Regional Public Transportation Authority

Table of Contents

Comprehensive Annual Financial Report and Single Audit Reports

Fiscal Year Ended June 30, 2005

	<u>Page</u>
<u>Single Audit Section</u>	
Supplementary Schedule of Expenditures of Federal Awards	63
Notes to the Supplementary Schedule of Expenditures of Federal Awards	64
Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based Upon the Audit Performed in Accordance With <i>Governmental Auditing Standards</i>	65
Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program	66
Schedule of Findings and Questioned Costs	68

Introductory Section

The Introductory Section includes the Authority's transmittal letter and the Certificate of Achievement for Excellence in Financial Reporting.



December 19, 2005

To Chairwoman Pat Dennis and Members of the Valley Metro RPTA Board of Directors:

The comprehensive annual financial report of the Valley Metro Regional Public Transportation Authority (the Authority) for the fiscal year ended June 30, 2005, is hereby submitted as mandated by state statute. The statute requires that the Authority annually issue a report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. 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 are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the Authority on both a government-wide and fund basis. All disclosures necessary to enable the reader to gain an understanding of the Authority'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 Authority's management is responsible to establish and maintain an internal control structure designed to ensure that the assets of the Authority 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. The Authority'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.

The independent certified public accounting firm of Deloitte & Touche LLP, whose report is included herein, has 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 the Authority for the fiscal year ended June 30, 2005, 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 the audit, that there was a reasonable basis for rendering an unqualified opinion that the basic financial statements of the Authority as of and for the fiscal year ended June 30, 2005, are fairly

Regional Public Transportation Authority
Letter of Transmittal (Continued)

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.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Additionally, the Authority is required to have an independent audit of expenditures of federal awards received (Single Audit) by the Authority directly from federal agencies, or passed through to the Authority 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 the Authority'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.

As a sub-recipient of federal and state financial assistance, the Authority is 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 the Authority's independent auditor. As part of the Authority'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 was not sufficient to support an opinion on the Authority's internal control system or its compliance with laws and regulations, the audit of the Authority's compliance with requirements applicable to each major program and internal control over compliance for the year ended June 30, 2005, resulted in an unqualified opinion of compliance and noted no material weaknesses in internal controls 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 the single audit section of this report.

This report is presented in four sections:

Introductory	Includes this letter of transmittal and the Certificate of Achievement for Excellence in Financial Reporting.
Financial	Includes the independent auditors' report, Management's Discussion and Analysis (MD&A), the basic financial statements (government-wide statements and fund statements), notes to the financial statements, other required supplementary information (RSI) and other financial schedules.
Statistical	Includes unaudited selected financial and demographic information, generally presented on a multi-year basis.
Single Audit	Includes the supplementary schedule of expenditures of federal awards, the independent auditors' reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget's Circular A-133, <i>Audits of States, Local Governments and Non-Profit Organizations</i> .

PROFILE OF THE AUTHORITY

The Authority was established in 1985 along with the passage of a one-half of one percent sales tax increase to fund regional highway and public transportation improvements in Maricopa County, Arizona (the County). The Authority was created to develop a regional transit plan and to develop and operate a regional transit system in the County. The financial reporting entity of the Authority includes all its funds and does not include any component units (i.e., legally separate entities for which the Authority is financially accountable).

The Authority is governed by a twelve-member Board of Directors consisting of a member of the County Board of Supervisors and the mayors (or their designees) of the cities of Avondale, Chandler, El Mirage, Glendale, Mesa, Peoria, Phoenix, Scottsdale, Surprise and Tempe, and the Town of Gilbert. Any municipality in the County may join the Authority and have one elected official serve on the Board of Directors by committing a portion of its local transportation assistance funds to local public transportation. An Executive Director, appointed by the Authority's Board of Directors, is responsible to carry out policy, plan, manage, supervise and coordinate all day-to-day activities. The Authority procures regional bus, dial-a-ride and vanpool services, provides regional transit and capital planning support, coordinates the County's transportation demand management activities, and provides general operational and administrative support to its members.

The annual budget serves as a foundation for the Authority's financial planning and control. Activities of the general fund, special revenue funds, and enterprise funds are included in the annual appropriated budget. The level of budgetary control, i.e., the level at which expenditures cannot legally exceed appropriations, is the total annual appropriated budget. Costs in excess of the total annual appropriated budget require approval of the Board of Directors. Transfers of appropriations between departments require the approval of the Executive Director. The Authority maintains budgetary control by conducting quarterly evaluations of expenditures against appropriations and through close monitoring of revenues. Encumbrance accounting is not utilized and all open purchase orders lapse at year-end. As demonstrated by the statements included in the financial section of this report, the Authority continues to meet its responsibility for sound financial management.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The Authority serves Maricopa County, which is located in central Arizona. According to the Arizona Department of Commerce, Maricopa County measures 9,222 square miles, 98 square miles of which is water. Twenty-nine percent of this area is owned individually or by corporations, and the U.S. Bureau of Land Management owns 28 percent. The U.S. Forest Services and the State of Arizona each control 11 percent of the county; an additional 16 percent is owned publicly. Almost 5 percent is Indian reservation land. Parts of western Maricopa County have 11 designated Enterprise Zones as well as central and southern areas in the City of Phoenix. The metropolitan area is home to the state capitol and includes the City of Phoenix, population 1.4 million, making it Arizona's major center of political and economic activity. In fact, more than half of the state's population resides in Maricopa County, which is home to 15 institutions of higher learning, including Arizona State University; various cultural attractions; professional baseball (Arizona Diamondbacks), basketball (Phoenix Suns and Phoenix Mercury), football (Arizona Cardinals) and hockey (Phoenix Coyotes); and Sky Harbor International Airport, the fifth busiest airport in the world with 1,300 daily flights.

The County has grown from just over 2.1 million residents in 1990, to 3.5 million residents in 2004, an increase of 66 percent in just 14 years. According to the Greater Phoenix Economic Council,

population is projected to grow at more than twice the national rate for the next couple of decades, growing to 5.2 million in 2020.

Maricopa County currently accounts for about 60 percent of the State's population and attracts a continual inflow of immigrants seeking new opportunities. According to the Greater Phoenix Economic Council, Maricopa County has added a significant amount of new housing in the past several years, with about 193,246 new single-family units and 71,612 new multi-family units built from 2000 through the end of 2004. The total housing inventory now includes over 1.5 million units. About 67 percent of the housing stock is made up of single family homes and townhouses.

Strong economic growth continues to challenge the Authority and the County it serves. Increases in population and new home construction have led to increased demands for quality public transportation and improved air quality. At this time, mass transit is limited to bus service only and accounts for approximately 1 percent of trips made in the County over a 24-hour period. Even though transit currently only carries 1 percent in a 24-hour period, it carries approximately 10 percent of work trips during peak travel periods which contributes to reducing congestion on Valley freeways. Furthermore, the bus service that is provided in the County is less than half of the amount of service provided in comparable metropolitan areas across the nation. On the positive side, light rail transit is on the horizon with a planned grand opening in 2008. And thanks to a November 2004 voter approved transportation tax initiative (Proposition 400), beginning in January 2006 a revenue stream of \$100 million annually will inject much needed resources into the region's transit network, allowing for the expansion and improvement of the entire system.

Major Initiatives

On November 2, 2004, the voters of Maricopa County approved Proposition 400, the continuation of the transportation tax, for a 20-year period, beginning in calendar year 2006. The approximate total vote in favor was 57.5 percent. This was 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, the Authority's Board of Directors, and the Arizona Department of Transportation. It also had the support of nearly every major business and community agency in the region.

To implement the projects approved with the passage of Proposition 400, staff worked with member agencies and other stakeholders to develop the Transit Life Cycle Program (TLCP). This project included the development of three major program elements: guiding principles, financial model, and policies and procedures. The guiding principles and the 20-year financial model were adopted by the Board in June 2005. The policies for the TLCP were adopted by the Board in October 2005. The six adopted guiding principles of the TLCP are as follows:

1. A defined and consistent process will be established to implement the voter approved Plan (Proposition 400 maps and capital improvements)
2. A defined and consistent process for Plan amendments and changes will be established
3. Funding allocations will be regularly monitored and managed
4. A defined and consistent process will be established to ensure legislated compliance audit, reporting and performance requirements are met
5. Budgeting and accounting systems will be established to manage Public Transportation Funds (PTF) and monitor and report results
6. Jurisdictional equity will be monitored annually over 20 years

Numerous meetings of the TLCP executive steering committee, TLCP stakeholders committee, and TLCP technical working groups were held over a nine-month period in order to complete this project, which was one of the most successful cooperative transit projects this region has ever undertaken.

Long-term Financial Planning

With the passage of Proposition 400, a new era began for the Authority. We have been given Board authorization to proceed on some very important studies that will revolutionize the way we do business. In order to achieve this, it is important to put the plans in place to create an agency that effectively and efficiently serves our member agencies and their residents for the next 20 years.

In late 2005, the following contracts were awarded:

Job Classification and Compensation Study

The Segal Company has been selected to perform a comprehensive analysis of the Authority's compensation package, including wages and benefits. A comprehensive study of this nature will help the Authority recruit and retain a quality workforce to assist with the implementation of the 20-Year Transit Life Cycle Program.

Public Transit Financial Services

Public Financial Management, Inc./Nelson Nygaard Consulting Associates will assist with the development and implementation of a financial program for the 20-Year Transit Life Cycle Program. This service will include developing capital program financing strategies, identifying investment opportunities, identifying other revenue generating opportunities, and reviewing and updating the language of the Authority's administrative code and financial policies.

In addition to the above studies, we will be undertaking the following major projects during FY 2006:

Strategic Plan/Organization Review

The Authority will be selecting a firm to develop a 20-Year Strategic Plan and Organization Model. With this study, we will be able to create a vision, direction, and plan for the next 20 years and beyond. In doing so, we will analyze business organization models and organizational management of public transportation agencies and determine the ideal transit system and organizational structure that best suits our region.

Transit Life Cycle Program (TLCP) Implementation

Proposition 400 goes into effect on January 1, 2006, and staff will oversee the first year of the program. Initial TLCP program implementation includes completing operating and capital intergovernmental agreements, developing a financing and investing program with the assistance of our financial services consultant, publishing a detailed TLCP users manual, establishing internal accounting coding and reporting structures, developing external management reports and establishing membership in key operating and financial committees.

Business Processes Improvement

During calendar year 2006, staff will be conducting an internal review of all major business processes. Some of the major processes scheduled to be reviewed are the Board of Directors policies and practices, procurement, accounting, budgeting, transit service operations, transit planning and operations processes and policies. Each area will be evaluated to determine the adequacy of existing policies and business processes. If needed, changes to policies and

business processes will be implemented. All business processes will be thoroughly documented.

Fleet Procurement

In the fall of 2005, fleet procurement commitments were made with scheduled deliveries in April 2006 and July 2006. The new fleet will offer much-needed relief to passengers who rode older equipment with problems keeping up with Arizona's summertime heat this past summer. New forty- and sixty-foot buses will allow the TLCP projects to be implemented on time and with new equipment.

Bus Paint Scheme

Staff is currently working with member cities to create a new Valley Metro bus paint scheme. The new paint scheme will modernize the look of our fleet and coincide nicely with the beginning of the TLCP.

As we continue to evolve as an agency, we continue to break existing record numbers for ridership. In September 2005, ridership reached an all-time high of 5,349,647, surpassing the highest month record in September 2004 of 4,996,948. Daily weekday ridership has also hit an all-time high of 221,404 boardings.

The vanpool program has experienced larger than average growth due to a rise in the cost of gasoline and increased awareness resulting from an advertising and incentive program this year. At the end of January 2004, there were 218 operating vanpools in the Valley Metro Vanpool Program, and at the end of October 2005 the fleet had increased to 265 operating vanpools, an increase of over 21 percent.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the ninth consecutive year the Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

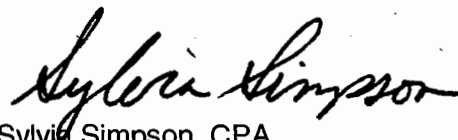
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,



David A. Boggs
Executive Director



Sylvia Simpson, CPA
Deputy Executive Director
Finance & Management Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Regional Public Transportation Authority, Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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.



Nancy L. Zjelke

President

Jeffrey R. Enev

Executive Director



**Regional
Public
Transportation
Authority**

Financial Section

The Financial Section includes the independent auditors' report, Management's Discussion and Analysis (MD&A), the basic financial statements (government-wide statements and fund statements), notes to the financial statements, other Required Supplementary Information (RSI) and other financial schedules.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Regional Public Transportation Authority
Phoenix, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the respective budgetary comparisons of the general fund and the transportation demand management fund of the Regional Public Transportation Authority (the "Authority") as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and the transportation demand management fund of the Authority as of June 30, 2005, and the respective changes in financial position and cash flows thereof, where applicable, and the respective budgetary comparison for the general fund and the transportation demand management fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information, management's discussion and analysis on pages 3 through 11, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information, such as the introductory section, the schedules of revenues, expenditures and changes in fund balances—budget and actual—transit planning and capital and other grants funds, the schedules of operations—budget and actual—proprietary funds, the schedule of fixed assets by function and activities, the schedule of changes in fixed assets by function and activities, and statistical tables, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Authority's management. The schedules of revenues, expenditures, and changes in fund balances—budget and actual—transit planning and capital and other grants funds, the schedules of operations—budget and actual—proprietary funds, the schedule of fixed assets by function and activities, the schedule of changes in fixed assets by function and activities, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 19, 2005

**Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis**

As management of Valley Metro Regional Public Transportation Authority (the Authority), we offer this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2005. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the Authority's financial activity, (3) identify changes in the Authority's financial positions, (4) identify any material deviations from the financial plan (adopted annual budget), and (5) identify individual fund issues or concerns.

Financial Highlights

- The Authority's total net assets increased \$1,187,000 in FY 2005, a \$34,300 increase in governmental activities and a \$1,152,700 increase in business-type activities. Total net assets of the Authority are \$19.0 million, of which \$4.6 million is unrestricted.
- The governmental activities functional revenues decreased by approximately \$1.5 million (27.9%) over the previous year.
- The business-type activities revenues increased by approximately \$9.5 million (27.0%) from the previous year.

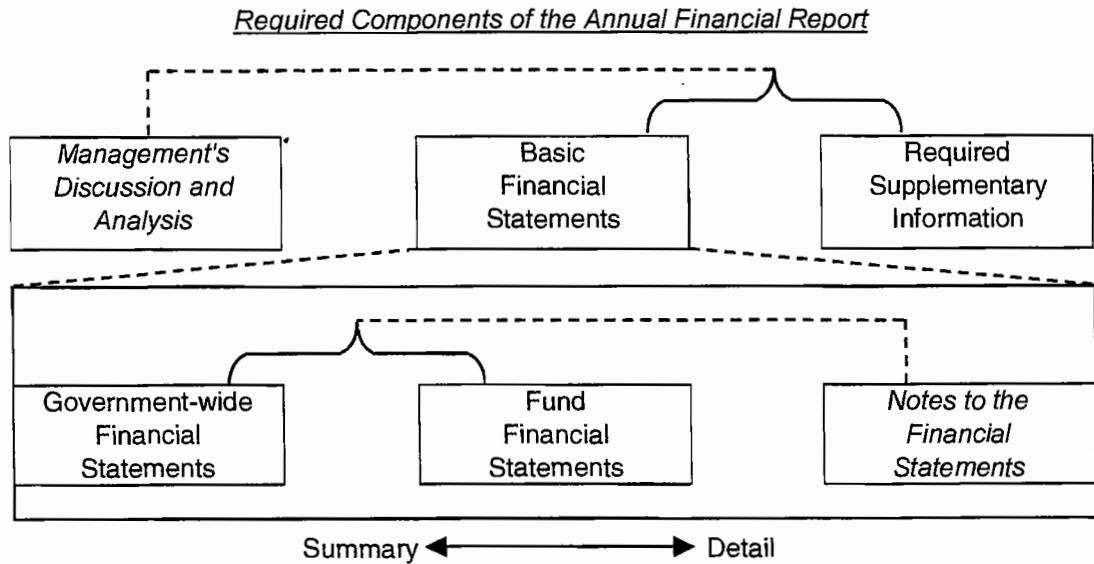
OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). The statements are presented as follows:

- Government-wide reporting – presents financial statements on a government-wide basis.
- Fund financial statements - presents governmental, proprietary and fiduciary fund financial statements, with the focus on major funds within each fund type.
- Measurement focus for governmental activities – in the government-wide financial statements all activities, including the governmental activities, are reported using the economic resources measurement focus and accrual basis of accounting. The current financial resources focus and modified accrual basis of accounting are followed for the governmental fund financial statements.
- Budgetary reporting – GASB No. 34 requires the display of both the original adopted budget and the revised budget in the budgetary comparison schedules. These schedules are only required for the general fund and major special revenue funds; however, the Authority has elected to present this information for the nonmajor special revenue funds and proprietary funds as additional information.
- Required narrative analysis – GASB No. 34 requires that the financial statements be accompanied by narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

As pictured below, the financial section of the Comprehensive Annual Financial Report (CAFR) for the Authority consists of this discussion and analysis, the basic financial statements and required supplementary information (other than MD&A). There are also additional non-required supplementary schedules presented after the basic financial statements. The basic financial

statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the general fund and major special revenue funds, and notes to the financial statements.



Government-wide Financial Statements

The government-wide financial statements (see pages 13 – 15) are designed to provide a broad overview of the Authority's finances in a manner similar to those used by private businesses. All of the activities of the Authority, except those of a fiduciary nature, are included in these statements.

The activities of the Authority are broken down into two columns on these statements – governmental activities and business-type activities. A total column for the Authority is also provided.

- The *governmental activities* include the basic services of the Authority including general government (administration), regional transit planning, and transportation demand management. Grants and general revenues generally support these activities.
- The *business-type activities* include the private sector type activities such as transit service operations, regional customer services and light rail. These activities are partially supported by user charges and provide substantial benefits, both direct and indirect, to the public at large.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, both current and long-term, with the difference between the two reported as net assets. The focus on net assets is designed to be similar to the emphasis for businesses. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. To assess the overall health of the Authority, other indicators, including non-financial indicators like the Authority's tax base and the condition of its capital assets, should also be considered.

The *statement of activities* presents information showing how the Authority's net assets changed over the most recent fiscal year. Since full accrual accounting is used for the government-wide financial statements, all changes to net assets are reported at the time that the underlying event

giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also focuses on both the gross and net costs of the various functions of the Authority, based only on direct functional revenues and expenses. This is designed to show the extent to which the various functions depend on general taxes and revenues for support.

Fund Financial Statements

Also presented are more traditional fund financial statements for governmental funds, proprietary funds and fiduciary funds. 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 the Authority.

Governmental funds - Governmental funds are used to account for most of the Authority's basic services. Unlike the governmental activities column on the government-wide financial statement, these fund financial statements (pages 16 - 22) focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in looking at the Authority's near-term financial requirements. Since the governmental activities on the statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided with the fund financial statements and also in Note 2 (pages 37 - 38).

Proprietary funds – Proprietary funds are used to account for business-type activities of the Authority. Enterprise funds are used for activities that primarily serve customers outside the governmental unit. The proprietary fund financial statements (pages 23 - 25) are prepared on the same long-term focus as the government-wide financial statements. The enterprise funds generally provide information similar to the business-type activities column of the government-wide financial statements, but provide more detail and additional information like cash flows.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of others. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support programs of the Authority. The fiduciary fund statements (pages 26 - 27) are prepared on the same basis as the government-wide and proprietary fund statements.

Notes to the Financial Statements – The notes to the financial statements (pages 28 - 46) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required supplementary information other than MD&A – Governments have an option of including the budgetary comparison statements of the general fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The Authority has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The Authority has disclosed this information in Note 11 (page 44).

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following tables and analysis discuss the financial position and changes to the financial position for the Authority as a whole as of and for the year ended June 30, 2005, with comparative information for the previous year.

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets as of June 30, 2005 compared to the prior year:

Condensed Statement of Net Assets
As of June 30
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Percent Change
	2005	2004	2005	2004	2005	2004	
	Current and other assets	\$ 3,941.4	\$ 3,976.7	\$ 10,356.2	\$ 7,365.2	\$ 14,297.6	
Capital assets	233.9	199.6	12,745.3	12,702.6	12,979.2	12,902.2	0.6%
Total assets	\$ 4,175.3	\$ 4,176.3	\$ 23,101.5	\$ 20,067.8	\$ 27,276.8	\$ 24,244.1	12.5%
Current liabilities	\$ 640.6	\$ 675.8	\$ 7,641.9	\$ 5,348.3	\$ 8,282.5	\$ 6,024.1	37.5%
Long-term liabilities	-	-	-	412.6	-	412.6	-100.0%
Total liabilities	\$ 640.6	\$ 675.8	\$ 7,641.9	\$ 5,760.9	\$ 8,282.5	\$ 6,436.7	28.7%
Net assets:							
Invested in capital assets, net of related debt	\$ 233.9	\$ 199.6	\$ 12,332.6	\$ 11,497.5	\$ 12,566.5	\$ 11,697.1	7.4%
Restricted	-	-	1,827.2	1,559.1	1,827.2	1,559.1	17.2%
Unrestricted	3,300.8	3,300.9	1,299.8	1,250.3	4,600.6	4,551.2	1.1%
Total net assets	\$ 3,534.7	\$ 3,500.5	\$ 15,459.6	\$ 14,306.9	\$ 18,994.3	\$ 17,807.4	6.7%

The Authority's total net assets increased \$1,187,000 in FY 2005, a \$34,300 increase in governmental activities and a \$1,152,700 million increase in business-type activities. Total net assets of the Authority are \$19.0 million, of which \$4.6 million is unrestricted.

The largest portion of net assets (66.2%) represents the Authority's investment in capital assets net of accumulated depreciation and related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide services to the region's citizens; consequently, it is not the Authority's intention to sell these assets and they are therefore not available for future spending. Although the capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves are not intended to be used to liquidate these liabilities.

An additional portion of the Authority's net assets (9.6%) represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$4.6 million may be used to meet the Authority's ongoing obligations to citizens and creditors.

Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Continued)

Changes in Net Assets

Total revenues of governmental activities decreased approximately 27.9% over the previous year, while program governmental expenses increased approximately 21.7%. Revenues of business-type activities increased approximately 27.0% and expenses of business-type activities increased 13.8% in fiscal year 2005.

The following table compares the revenues and expenses of the Authority for the current and previous fiscal year:

Changes in Net Assets
Fiscal year ended June 30
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		Percent Change
	2005	2004	2005	2004	2005	2004	
REVENUES							
Program revenues:							
Charges for services	\$ 49.6	\$ 32.5	\$ 32,686.8	\$ 28,094.3	\$ 32,736.4	\$ 28,126.8	16.4%
Operating grants and contributions	2,288.9	1,949.9	5,140.8	1,834.0	7,429.7	3,783.9	96.4%
Capital grants and contributions	172.4	92.1	387.8	820.2	560.2	912.3	-38.6%
General revenues:							
Sales taxes	1,154.1	3,071.7	6,559.3	4,516.1	7,713.4	7,587.8	1.7%
Interest earnings	104.0	84.0	2.8	0.3	106.8	84.3	26.7%
Other	1.1	1.0	-	-	1.1	1.0	14.7%
Total revenues	3,770.1	5,231.2	44,777.5	35,264.9	48,547.6	40,496.1	19.9%
EXPENSES							
Governmental activities:							
Regional planning	715.4	627.0	-	-	715.4	627.0	14.1%
Transportation demand management	1,932.3	1,708.2	-	-	1,932.3	1,708.2	13.1%
Administration	856.4	592.4	-	-	856.4	592.4	44.6%
Community funded transportation	51.6	51.7	-	-	51.6	51.7	-0.3%
Capital outlay	180.1	91.0	-	-	180.1	91.0	97.9%
Business-type activities:							
Transit service operations	-	-	34,834.3	30,650.7	34,834.3	30,650.7	13.6%
Regional customer services	-	-	5,123.1	4,710.6	5,123.1	4,710.6	8.8%
Light rail transit	-	-	3,667.4	2,982.7	3,667.4	2,982.7	23.0%
Total expenses	3,735.8	3,070.3	43,624.8	38,344.0	47,360.6	41,414.3	14.4%
Excess (deficit) before transfers	34.3	2,160.9	1,152.7	(3,079.1)	1,187.0	(918.2)	-229.3%
Transfers in (out)	-	(1,139.4)	-	1,139.4	-	-	0.0%
Increase (decrease) in net assets	\$ 34.3	\$ 1,021.5	\$ 1,152.7	\$ (1,939.7)	\$ 1,187.0	\$ (918.2)	-229.3%

The largest financing source for the Authority as a whole is charges for services (67.4%), which is also the major funding source for business-type activities (73.0%). Business-type activities also receive substantial sales tax revenues (14.6%) and federal grants and contributions (12.3%). The major funding sources of governmental activities are federal and state grants (65.3%) and sales taxes (30.6%).

Growth in the Authority's sales tax revenue is statutorily limited to the previous year's percentage increase/decrease in the Gross Domestic Product Implicit Price Deflator (GDPIPD). For FY 05, the

GDPIPD was 1.7%. Sales tax is not limited to governmental funds and is used to subsidize proprietary fund activities as needed.

The largest user of resources for the Authority as a whole is the business-type activities (92.1%). For the governmental activities, the largest users of resources are transportation demand management (51.7%), administration (22.9%) and regional planning (19.1%).

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

As previously mentioned, the Authority maintains fund accounting to demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

Governmental funds

The focus of the governmental funds financial statements (pages 16 - 22) is to provide information on near-term inflows, outflows and balances of spendable resources. All major governmental funds are discreetly presented on these financial statements. The Transit Planning Fund and Capital and Other Grants Fund do not meet the criteria of a major fund, but are shown discretely for consistency with the prior year presentation.

The fund balance of the governmental funds remained stable at \$3.3 million. Of the \$3.3 million total fund balance, the Authority has designated \$350,173 for certain uses and the remainder is in unreserved fund balance (see Note 6 (page 41)). Unreserved fund balance may serve as a useful indicator of a government's net resources available for spending at the end of the year. The entire \$3.3 million fund balance is reported in the General Fund; all other governmental funds are reimbursement-basis special revenue funds (i.e., revenues equal expenditures) that do not have fund balances.

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities include the Executive Director's office, communications and government relations, community funded transportation, and finance and management services. General Fund revenues decreased 67.3% over the previous year, primarily the result of an increase in sales tax revenues allocated to the proprietary funds of \$2.0 million. The increased allocated revenues were to expand transit service and fund capital purchases in the Transit Service Operations enterprise fund.

The Transportation Demand Management Fund accounts for activities related to the countywide ridesharing program, trip reduction program and clean air campaign. Revenues and expenditures increased 13.1% from the prior year due to an increase in grant funds available for telework programs.

The Transit Planning Fund accounts for activities related to the development of strategies to promote social and economic well being of the community through the provision of an efficient and effective regional transit system. Revenues and expenditures increased 14.1% from the prior year due to the completion of several planned consultant studies which were postponed from the prior year.

The Capital and Other Grants Fund accounts for state and federal grant revenues and expenditures not related to planning or transportation demand management. Revenues and expenditures increased 86.1% from the prior year due to an increase in purchases of furniture and computer software and hardware.

Proprietary funds

The proprietary fund financial statements (pages 23 – 25) are prepared on the same accounting basis and measurement focus as the government-wide financial statements, but provide additional detail since each enterprise fund is a major fund and is shown discretely on the fund statements.

Net assets of the enterprise funds increased \$1,152,700 during fiscal year 2005, primarily due to the net change in capital assets.

The Transit Service Operations Fund accounts for the activities related to the operations of local and express bus, dial-a-ride and vanpool services for the region. Net assets increased 5.1%, (\$720,200), primarily the result of the changes in capital assets related to vehicle purchases, disposals and depreciation and an increase of \$217,300 in funds reserved for vanpool vehicle replacement.

The Regional Customer Services Fund accounts for activities related to marketing, customer services, Americans with Disabilities (ADA) compliance, contract maintenance and quality monitoring, and farebox data reporting for the region. Net assets increased 355.5% (\$432,500), the result of the changes in capital assets during FY 2005.

The Valley Metro Rail Fund accounts for staffing and administrative services that are contractually provided by the Authority to Valley Metro Rail, Inc. (VMR). VMR is a nonprofit corporation organized for the purpose of planning, designing, constructing, and operating the light rail transit project in metropolitan Phoenix (see Note 1(a) on page 28). The Valley Metro Rail Fund has no net assets.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$337,500 net decrease in appropriations between the original and final amended budget. Following are the main components of the net decrease:

- \$65,000 supplemental appropriation to the executive director department for additional costs as a result of hiring a new executive director during fiscal year 2005;
- \$149,000 supplemental appropriation to the finance and management services department in anticipation of four additional manager positions;
- \$551,500 reduced appropriation for contingency.

For the year ended June 30, 2005, actual expenditures exceeded final amended budget amounts by \$1,728. The excess was entirely covered with excess revenues and did not result in a fund deficit.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

As of June 30, 2005, the Authority had \$12.6 million invested in various capital assets, net of accumulated depreciation and related debt. The capital assets of the Authority (net of depreciation, but not capital debt) are \$13.0 million. There was a net increase in capital assets, net of accumulated depreciation and related debt, of \$869,400 from June 30, 2004, which consisted of a net increase of \$34,300 resulting from governmental activities and a net increase of \$835,100 resulting from business-type activities.

Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Continued)

The following table provides a breakdown of capital assets of the Authority at June 30, 2005 with comparative information for the previous year. Additional information on the Authority's capital assets may be found in Note 7 on pages 42 - 43.

Capital Assets, Net of Depreciation

As of June 30

(in thousands of dollars)

	Governmental		Business-type		Total		Percent Change
	Activities		Activities		Primary Government		
	2005	2004	2005	2004	2005	2004	
Transit fleet	\$ -	\$ -	\$ 9,167.6	\$ 11,017.1	\$ 9,167.6	\$ 11,017.1	-16.8%
Computers & software	115.3	121.0	167.0	96.6	282.3	217.6	29.7%
Equipment	30.5	19.2	89.1	-	119.6	19.2	522.4%
Vehicles	22.6	13.1	-	-	22.6	13.1	72.5%
Furniture & fixtures	65.5	46.3	112.4	28.2	177.9	74.5	138.8%
Work-in-progress	-	-	3,209.2	1,560.7	3,209.2	1,560.7	105.6%
Total assets	\$ 233.9	\$ 199.6	\$ 12,745.3	\$ 12,702.6	\$ 12,979.3	\$ 12,902.2	0.6%

Long-term debt

At fiscal year end, the Authority has only one outstanding debt obligation. During fiscal year 1993, the Authority entered into a capital purchase agreement with the City of Phoenix to acquire transit capital equipment, i.e., buses and dial-a-ride vehicles, totaling \$40,733,247. In accordance with the agreement, the City of Phoenix, on behalf of the Authority, purchased transit capital equipment and received federal reimbursement under Federal Transit Administration Urbanized Area Formula Grants of \$34,786,184. The remaining amount of \$5,947,063 was funded by the City of Phoenix, on behalf of the Authority, and charged back to the Authority in the form of a line of credit. The line of credit bears interest at 5.5% from the date of each advance. Principal payments commenced on July 1, 1997, with full repayment on July 1, 2005. The principal balance at June 30, 2005 is \$412,647 (see Note 8).

ECONOMIC FACTORS

The Authority's major project for the fiscal year 2005 was the development of the elements necessary for implementing the first year of the Proposition 400 Transit Life Cycle Program (TLCP) after the tax extension was approved in November 2004. The tax extension extends a current one-half of one cent sales tax (the Regional Area Road Fund, or RARF) for an additional 20 years, and provides the Authority with an annual cash flow of \$100 million for the first year of the tax extension, calendar year 2006. The new funds will provide for the improvement and expansion of the metropolitan transit system, including local and express bus, bus rapid transit, paratransit and light rail. Authority staff worked closely with staff from the member agencies and other stakeholders to develop the TLCP guiding principles, financial model and policies and procedures during fiscal year 2005. The TLCP guiding principles and financial model were approved by the RPTA Board on June 16, 2005. The TLCP policies were adopted by the RPTA Board in October 2005.

The adopted fiscal year 2006 budget is \$109.6 million (up 103.3% from 2005). The combined operating and capital budget of \$109.6 million includes the first year of Proposition 400 Public Transportation Fund (PTF) revenues (\$45.7 million). The \$45.7 million PTF represents five months

Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Continued)

of earned revenue (February 2006 - June 2006). The actual tax goes into effect in January 2006; however, revenues are not considered earned until received by the State in February 2006. Of the \$45.7 million PTF, \$25.9 million is for bus operating and bus capital and \$19.8 million is for light rail/high capacity capital. The total operating budget of \$74.6 million represents a \$27.7 million (59%) increase over the previous year's operating budget of \$46.9 million. The total capital budget of \$34.9 million represents a \$27.9 million (401%) increase over the previous year's capital budget of \$7.0 million. The major reason for these large increases is directly related to the passage of Proposition 400. The budget is balanced; decreases in net assets other than capital assets are not anticipated for fiscal year 2006.

FINANCIAL CONTACT

The financial report is designed to provide a general overview of the Authority'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 the Authority's Director of Finance and Management Services, Valley Metro RPTA, 302 North First Avenue, Suite 700, Phoenix, Arizona 85003.



**Regional
Public
Transportation
Authority**

Valley Metro
Regional Public Transportation Authority
Statement of Net Assets
June 30, 2005

Assets	Governmental Activities	Business-type Activities	Total
Cash and investments	\$ 2,862,243	\$ 2,001,039	\$ 4,863,282
Receivables, net	790,806	6,683,201	7,474,007
Due from other governments	-	950,035	950,035
Internal balances	248,097	(248,097)	-
Other assets	40,351	970,050	1,010,401
Capital assets, net	233,870	12,745,306	12,979,176
Total assets	<u>4,175,367</u>	<u>23,101,534</u>	<u>27,276,901</u>
Liabilities			
Liabilities:			
Accounts payable	290,849	6,338,956	6,629,805
Due to other governments	78,599	264,621	343,220
Interest payable	-	11,348	11,348
Other liabilities	271,190	614,331	885,521
Capital purchase agreement due within one year	-	412,647	412,647
Total liabilities	<u>640,638</u>	<u>7,641,903</u>	<u>8,282,541</u>
Net Assets			
Invested in capital assets, net of related debt	233,870	12,332,659	12,566,529
Restricted for:			
Vanpool asset replacement	-	1,437,001	1,437,001
Transit capital asset replacement	-	390,191	390,191
Unrestricted	3,300,859	1,299,780	4,600,639
Total net assets	<u>\$ 3,534,729</u>	<u>\$ 15,459,631</u>	<u>\$ 18,994,360</u>

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority
Statement of Activities
Fiscal Year Ended June 30, 2005

<u>Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Regional planning:				
Long range planning	\$ 162,287	\$ -	\$ 93,942	\$ -
Short range planning	145,690	-	65,424	-
Capital planning	236,219	39,642	126,197	-
Program support	171,169	-	81,078	-
Transportation demand management:				
Trip reduction	931,196	-	931,196	-
Ridesharing	514,977	-	514,977	-
Other programs	486,102	10,000	476,102	-
Administration:				
Executive director's office	400,777	-	-	-
Communications & government relations	161,979	-	-	-
Finance & management services	293,648	-	-	-
Community funded transportation	51,652	-	-	-
Capital outlay	180,099	-	-	172,438
Total governmental activities	<u>3,735,795</u>	<u>49,642</u>	<u>2,288,916</u>	<u>172,438</u>
Business-type activities:				
Transit service operations	34,834,292	24,057,258	4,910,251	387,845
Regional customer services	5,123,118	4,962,128	230,562	-
Light rail transit	3,667,400	3,667,400	-	-
Total business-type activities	<u>43,624,810</u>	<u>32,686,786</u>	<u>5,140,813</u>	<u>387,845</u>
Total primary government	<u>\$ 47,360,605</u>	<u>\$ 32,736,428</u>	<u>\$ 7,429,729</u>	<u>\$ 560,283</u>

General revenues:
Sales taxes
Interest earnings
Other income
Total general revenues & transfers
Change in net assets
Net assets - beginning
Net assets - ending

(Continued)

Net (Expense) Revenues and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (68,345)	\$ -	\$ (68,345)
(80,266)	-	(80,266)
(70,380)	-	(70,380)
(90,091)	-	(90,091)
-	-	-
-	-	-
-	-	-
(400,777)	-	(400,777)
(161,979)	-	(161,979)
(293,648)	-	(293,648)
(51,652)	-	(51,652)
(7,661)	-	(7,661)
<u>(1,224,799)</u>	<u>-</u>	<u>(1,224,799)</u>
-	(5,478,938)	(5,478,938)
-	69,572	69,572
-	-	-
<u>-</u>	<u>(5,409,366)</u>	<u>(5,409,366)</u>
<u>(1,224,799)</u>	<u>(5,409,366)</u>	<u>(6,634,165)</u>
1,154,022	6,559,344	7,713,366
103,981	2,774	106,755
1,047	-	1,047
<u>1,259,050</u>	<u>6,562,118</u>	<u>7,821,168</u>
<u>34,251</u>	<u>1,152,752</u>	<u>1,187,003</u>
<u>3,500,478</u>	<u>14,306,879</u>	<u>17,807,357</u>
<u>\$ 3,534,729</u>	<u>\$ 15,459,631</u>	<u>\$ 18,994,360</u>

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority
 Balance Sheet
 Governmental Funds
 June 30, 2005

	Major Funds	
	General Fund	Transportation Demand Management
Assets		
Cash and investments	\$ 2,862,243	\$ -
Receivables, net	6,946	630,620
Due from other funds	666,746	-
Other assets	40,351	-
Total Assets	\$ 3,576,286	\$ 630,620
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 44,718	\$ 139,681
Due to other funds	-	427,643
Due to other governments	78,599	-
Other liabilities	152,110	63,296
Total liabilities	275,427	630,620
Fund balances:		
Unreserved, designated	350,173	-
Unreserved, undesignated	2,950,686	-
Total fund balances	3,300,859	-
Total liabilities and fund balances	\$ 3,576,286	\$ 630,620

(Continued)

Nonmajor Funds		
Transit Planning	Capital & Other Grants	Total Governmental Funds
\$ -	\$ -	\$ 2,862,243
126,990	26,250	790,806
18,600	-	685,346
-	-	40,351
<u>\$ 145,590</u>	<u>\$ 26,250</u>	<u>\$ 4,378,746</u>
\$ 89,806	\$ 16,644	\$ 290,849
-	9,606	437,249
-	-	78,599
55,784	-	271,190
<u>145,590</u>	<u>26,250</u>	<u>1,077,887</u>
-	-	350,173
-	-	2,950,686
-	-	<u>3,300,859</u>
<u>\$ 145,590</u>	<u>\$ 26,250</u>	<u>\$ 4,378,746</u>

**Reconciliation of the balance sheet to the statement
of net assets**

Fund balances, total governmental
funds balance sheet \$ 3,300,859

Amounts reported for governmental
activities in the statement of net
assets are different because (see
also Note 2):

Governmental capital assets	817,604
Less accumulated depreciation	<u>(583,734)</u>
Net assets of governmental activities, statement of net assets	<u>\$ 3,534,729</u>

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2005

	Major Funds	
	General Fund	Transportation Demand Management
Revenues:		
Sales taxes	\$ 803,028	\$ -
Intergovernmental:		
State & county grants	-	400,000
Federal Transit Administration	-	-
CMAQ	-	1,480,275
Other federal grants	-	42,000
Charges for services	-	10,000
Interest earnings	103,981	-
Other	1,047	-
Total revenues	<u>908,056</u>	<u>1,932,275</u>
Expenditures:		
Current:		
Regional planning:		
Long range	-	-
Short range	-	-
Capital	-	-
Program support	-	-
Transportation demand management:		
Trip reduction	-	931,196
Ridesharing	-	514,977
Other programs	-	486,102
Administration:		
Executive director	400,777	-
Communications & government relations	161,979	-
Finance & management services	293,648	-
Community funded transportation	51,652	-
Capital outlay	-	-
Total expenditures	<u>908,056</u>	<u>1,932,275</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>
Fund balance, beginning	3,300,859	-
Fund balance, ending	<u>\$ 3,300,859</u>	<u>\$ -</u>

(Continued)

Nonmajor Funds		
Transit Planning	Capital & Other Grants	Total Governmental Funds
\$ 309,082	\$ 41,912	\$ 1,154,022
-	-	400,000
353,738	172,438	526,176
12,903	-	1,493,178
-	-	42,000
39,642	-	49,642
-	-	103,981
-	-	1,047
<u>715,365</u>	<u>214,350</u>	<u>3,770,046</u>
162,287	-	162,287
145,690	-	145,690
236,219	-	236,219
171,169	-	171,169
-	-	931,196
-	-	514,977
-	-	486,102
-	-	400,777
-	-	161,979
-	-	293,648
-	-	51,652
-	214,350	214,350
<u>715,365</u>	<u>214,350</u>	<u>3,770,046</u>
-	-	-
-	-	3,300,859
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,300,859</u>

See accompanying notes to the financial statements.

Valley Metro

Regional Public Transportation Authority

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities

Fiscal Year Ended June 30, 2005

Net change in fund balances, total governmental funds	\$ -
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> <p>This is the amount by which capital outlays (\$134,425) exceeded depreciation expense (\$100,174) in the current period.</p>	
	34,251
Net assets of governmental activities, statement of net assets	<u>\$ 34,251</u>

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority
 Budgetary Comparison Statement
 General Fund
 Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (budgetary basis)	Variance with Final Budget Over (Under)
	Original	Final		
Resources (inflows):				
State sources:				
Sales taxes	\$ 1,233,786	\$ 876,328	\$ 803,028	\$ (73,300)
Interest	60,000	80,000	103,981	23,981
Other	-	-	1,047	1,047
Total revenues	<u>1,293,786</u>	<u>956,328</u>	<u>908,056</u>	<u>(48,272)</u>
Charges to appropriations (outflows):				
Current:				
Executive director	281,162	346,162	400,777	54,615
Communications & government relations	273,577	273,577	161,979	(111,598)
Finance & management services	85,987	234,937	293,648	58,711
Community funded transportation	51,652	51,652	51,652	-
Contingency	551,408	-	-	-
Total expenditures	<u>1,243,786</u>	<u>906,328</u>	<u>908,056</u>	<u>1,728</u>
Net change in fund balances	50,000	50,000	-	(50,000)
Budgetary fund balance, beginning	<u>3,300,859</u>	<u>3,300,859</u>	<u>3,300,859</u>	<u>-</u>
Budgetary fund balance, ending	<u>\$ 3,350,859</u>	<u>\$ 3,350,859</u>	<u>\$ 3,300,859</u>	<u>\$ (50,000)</u>

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority
 Budgetary Comparison Statement
 Transportation Demand Management
 Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (budgetary basis)	Variance with Final Budget Over (Under)
	Original	Final		
Resources (inflows):				
State sources:				
State grants	\$ 400,000	\$ 400,000	\$ 400,000	\$ -
Federal sources:				
CMAQ	1,344,000	1,294,000	1,480,275	186,275
Other federal grants	42,000	42,000	42,000	-
Charges for services	30,000	10,000	10,000	-
Total revenues	<u>1,816,000</u>	<u>1,746,000</u>	<u>1,932,275</u>	<u>186,275</u>
Charges to appropriations (outflows):				
Current:				
Trip reduction	842,000	842,000	931,196	89,196
Ridesharing	594,000	594,000	514,977	(79,023)
Other programs	380,000	310,000	486,102	176,102
Total expenditures	<u>1,816,000</u>	<u>1,746,000</u>	<u>1,932,275</u>	<u>186,275</u>
Net change in fund balances	-	-	-	-
Budgetary fund balance, beginning	-	-	-	-
Budgetary fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities - Enterprise Funds			Total Proprietary Funds
	Transit Service Operations	Regional Customer Services	Valley Metro Rail	
Assets				
Current assets				
Cash and investments	\$ 1,947,082	\$ -	\$ 53,957	\$ 2,001,039
Receivables, net	5,837,753	845,448	-	6,683,201
Due from other governments	708,474	-	241,561	950,035
Other assets	670,050	300,000	-	970,050
Total current assets	9,163,359	1,145,448	295,518	10,604,325
Non-current assets				
Capital assets, net of accumulated depreciation	12,191,149	554,157	-	12,745,306
Total assets	21,354,508	1,699,605	295,518	23,349,631
Liabilities				
Current liabilities:				
Accounts payable	5,836,848	502,108	-	6,338,956
Due to other funds	-	248,097	-	248,097
Due to other governments	53,843	210,778	-	264,621
Interest payable	11,348	-	-	11,348
Other current liabilities	134,348	184,465	295,518	614,331
Capital purchase agreement due within one year	412,647	-	-	412,647
Total current liabilities	6,449,034	1,145,448	295,518	7,890,000
Net Assets				
Invested in capital assets, net of related debt	11,778,502	554,157	-	12,332,659
Restricted:				
Vanpool vehicle replacement	1,437,001	-	-	1,437,001
Transit vehicle replacement	390,191	-	-	390,191
Unrestricted	1,299,780	-	-	1,299,780
Total net assets	\$ 14,905,474	\$ 554,157	\$ -	\$ 15,459,631

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds			Total Proprietary Funds
	Transit Service Operations	Regional Customer Services	Valley Metro Rail	
Operating Revenues:				
Charges for services	\$ 24,057,258	\$ 4,962,128	\$ 3,667,400	\$ 32,686,786
Total operating revenues	24,057,258	4,962,128	3,667,400	32,686,786
Operating Expenses:				
Local & express bus service	23,819,316	-	-	23,819,316
Light rail staff and administration	-	-	3,667,400	3,667,400
Regional customer services	-	5,057,372	-	5,057,372
Paratransit service	5,716,603	-	-	5,716,603
Vanpool service	549,620	-	-	549,620
Administrative and general	482,442	-	-	482,442
Depreciation	4,239,377	65,746	-	4,305,123
Total operating expenses	34,807,358	5,123,118	3,667,400	43,597,876
Operating loss	(10,750,100)	(160,990)	-	(10,911,090)
Non-Operating Revenues (Expenses):				
Sales taxes	6,199,184	360,160	-	6,559,344
Federal Transit Administration grants	4,910,251	230,562	-	5,140,813
Local member participation	387,845	-	-	387,845
Interest income	-	2,774	-	2,774
Interest expense	(33,740)	-	-	(33,740)
Gain on disposal of capital assets	6,806	-	-	6,806
Total non-operating revenues (expenses)	11,470,346	593,496	-	12,063,842
Changes in net assets	720,246	432,506	-	1,152,752
Net assets, beginning	14,185,228	121,651	-	14,306,879
Net assets, ending	\$ 14,905,474	\$ 554,157	\$ -	\$ 15,459,631

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds			Total Proprietary Funds
	Transit Service Operations	Regional Customer Services	Valley Metro Rail	
Cash flows from operating activities				
Receipts from customers	\$ 24,594,854	\$ 5,358,398	\$ 3,639,548	\$ 33,592,800
Payments to suppliers	(27,628,649)	(5,297,427)	(506,666)	(33,432,742)
Payments to employees	(388,128)	(288,148)	(3,108,711)	(3,784,987)
Net cash (used in) provided by operating activities	(3,421,923)	(227,177)	24,171	(3,624,929)
Cash flows from noncapital financing activities				
Advances from other funds	(2,144,552)	53,140	-	(2,091,412)
Sales taxes	6,199,184	360,160	-	6,559,344
Receipts from federal grants	5,004,439	-	-	5,004,439
Net cash provided by noncapital financing activities	9,059,071	413,300	-	9,472,371
Cash flows from capital and related financing activities				
Purchases of capital assets	(3,507,168)	(188,897)	-	(3,696,065)
Receipts from federal capital grants	149,479	-	-	149,479
Proceeds from sale of capital assets	49,186	-	-	49,186
Local member participation	466,427	-	-	466,427
Principal payments of capital lease	(792,458)	-	-	(792,458)
Interest payments of capital lease	(55,532)	-	-	(55,532)
Net cash used in capital and related financing activities	(3,690,066)	(188,897)	-	(3,878,963)
Cash flows from investing activities				
Interest received on investments	-	2,774	-	2,774
Net cash provided by investing activities	-	2,774	-	2,774
Net increase in cash and cash equivalents	1,947,082	-	24,171	1,971,253
Cash and cash equivalents, beginning of year	-	-	29,786	29,786
Cash and cash equivalents, end of year	\$ 1,947,082	\$ -	\$ 53,957	\$ 2,001,039
Reconciliation of operating loss to net cash (used in) provided by operating activities				
Operating loss	\$ (10,750,100)	\$ (160,990)	\$ -	\$ (10,911,090)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:				
Depreciation	4,239,377	65,746	-	4,305,123
(Increase) decrease in assets:				
Accounts receivable	88,135	899,305	-	987,440
Due from other governments	547,246	-	(27,852)	519,394
Other assets	(246,055)	(280,882)	-	(526,937)
Increase (decrease) in liabilities:				
Accounts payable	2,814,978	(220,934)	-	2,594,044
Due to other governments	29,603	(543,413)	-	(513,810)
Other liabilities	(145,107)	13,991	52,023	(79,093)
Total adjustments	7,328,177	(66,187)	24,171	7,286,161
Net cash (used in) provided by operating activities	\$ (3,421,923)	\$ (227,177)	\$ 24,171	\$ (3,624,929)
Noncash capital activities				
Purchase of capital assets with a corresponding increase in accounts payable	\$ 734,706	\$ 309,355	\$ -	\$ 1,044,061

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Community Funded Transportation Private Purpose Trust Fund
Assets	
Cash and investments	\$ 30,596
Total assets	<u>\$ 30,596</u>
Liabilities	
Due to other governments	\$ 30,596
Total liabilities	<u>\$ 30,596</u>

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Fiscal Year Ended June 30, 2005

	Community Funded Transportation Private Purpose Trust Fund	LTA II Private Purpose Trust Fund	Total Fiduciary Funds
Additions			
Contributions	\$ 51,652	\$ 8,145,076	\$ 8,196,728
Total additions	<u>51,652</u>	<u>8,145,076</u>	<u>8,196,728</u>
Deductions			
Distributions	<u>185,678</u>	<u>8,145,076</u>	<u>8,330,754</u>
Total deductions	<u>185,678</u>	<u>8,145,076</u>	<u>8,330,754</u>
Changes in net assets	(134,026)	-	(134,026)
Net assets, beginning of year	<u>164,622</u>	<u>-</u>	<u>164,622</u>
Net assets, end of year	<u>\$ 30,596</u>	<u>\$ -</u>	<u>\$ 30,596</u>

See accompanying notes to the financial statements.

Valley Metro
Regional Public Transportation Authority

Notes to the Financial Statements
Fiscal Year Ended June 30, 2005

1. Summary of Significant Accounting Policies

The accounting policies of the Authority 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.

GASB Statement No. 20 requires that governments' enterprise activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. The Authority has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

During the fiscal year ended June 30, 2005, the Authority implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the Authority's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and has no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

a. Financial Reporting Entity

The Regional Public Transportation Authority (the Authority) was established under the laws of the State of Arizona in 1985 along with the passage of a one-half of one percent sales tax increase to fund regional highway and public transportation improvements. The Authority was charged with developing a regional transit plan and developing and operating a regional transit system for Maricopa County (the County). In 1993, the Authority's Board of Directors adopted Valley Metro as the identity for the regional transit system. Valley Metro was chosen to give the region's buses a more recognizable identity and to help unify public transit systems in the County.

The Authority is governed by a Board of Directors consisting of a member of the County Board of Supervisors and the mayors (or their designees) of the cities of Avondale, Chandler, El Mirage, Glendale, Mesa, Peoria, Phoenix, Scottsdale, Surprise and Tempe, and the Town of Gilbert. A municipality may have one elected official serve on the Authority's Board of Directors by committing a portion of their local transportation assistance funds to local public transportation.

In October 2002, the city councils of Glendale, Mesa, Phoenix and Tempe approved the formation of a public nonprofit corporation by the name of Valley Metro Rail, Inc. (VMR). The nonprofit corporation was organized for the purpose of planning, designing, constructing, and operating the Light Rail Transit Project. VMR contracts with the Authority for certain administrative functions, including personnel, administration and financial and accounting services. This activity is recorded in the Authority's Valley Metro Rail Enterprise Fund. All VMR staff is hired and employed by the Authority but works solely under the direction of the legally separate entity of VMR and its Board of Directors

through a contractual arrangement with the Authority. The Board of VMR is solely responsible for the governance of VMR and the Authority's Board of Directors has no responsibility for VMR. VMR is not a component unit of the Authority because the economic resources received by VMR are entirely for the direct benefit of VMR and the Authority is not entitled to and has no ability to otherwise access any of the economic resources received or held by VMR. However, VMR is a related party of the Authority since the four cities who are members of VMR's Board of Directors are also members of the Authority's Board of Directors.

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).

The government-wide financial statements (statement of net assets and statement of activities) report on the Authority as a whole, excluding fiduciary activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

The government-wide Statement of Net Assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the Authority would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy or legislative action of the reporting government, are not shown on the government-wide financial statements. Note 6 discusses the internal

Valley Metro
Regional Public Transportation Authority
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2005

reservations and designations of net assets in the various funds to demonstrate the government's intended use of those net assets.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of the various functions and segments of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and the other revenues not identifiable with particular functions or segments are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB No. 34. Although GASB No. 34 sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The Authority has opted to add the Capital and Other Grants special revenue fund as a major fund as there are no other non-major funds.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements. Additional reconciliations are also provided in Note 2.

The proprietary fund and fiduciary fund financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items like investment income and interest expense that are not a result of the direct operations of the activity.

c. Basis of Presentation

The accounts of the Authority are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following fund categories (further divided by fund type) are used by the Authority:

Governmental Funds

Governmental funds are used to account for the Authority's general government activities. The focus of Governmental Fund measurement, in the fund financial statements, is upon determination of financial position and changes in financial position rather than upon net income. The following are the Governmental Funds of the Authority:

General fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special revenue funds account for revenue sources that are restricted to expenditures for specific purposes. The restrictions may be imposed by outside parties or by the governing body. The special revenue fund presented as a major fund in the basic financial statements is as follows:

The Transportation Demand Management Fund accounts for activities related to the countywide ridesharing program, trip reduction program and clean air campaign.

The special revenue funds presented as nonmajor funds in the basic financial statements are as follows:

The Transit Planning Fund accounts for activities related to the development of strategies to promote social and economic well being of the community through the provision of an efficient and effective regional transit system.

The Capital and Other Grants Fund accounts for state and federal grant revenues and expenditures not included in other special revenue funds.

Proprietary Funds

Proprietary funds account for activities of the Authority 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 funds that the Authority uses.

Valley Metro
Regional Public Transportation Authority
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2005

Enterprise funds are used to account for those operations that provide services to the general public for a fee. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the Authority to establish activity fees or charges to recover the cost of providing services, including capital costs.

The enterprise funds of the Authority are as follows:

The Transit Service Operations Fund accounts for the activities related to the operations of local and express bus, dial-a-ride and vanpool services for the region.

The Regional Customer Services Fund accounts for activities related to marketing, customer services, Americans with Disabilities (ADA) compliance, contract maintenance and quality monitoring, and farebox data reporting for the region.

The Valley Metro Rail Fund accounts for the activities related to the staffing and administrative services that are contractually provided by the Authority to Valley Metro Rail, Inc.

The Regional Customer Services Fund accounts for activities related to marketing, customer services, Americans with Disabilities (ADA) compliance, contract maintenance and quality monitoring, and farebox data reporting for the region.

Fiduciary Funds

Fiduciary funds account for assets held by the Authority in a trustee or agency capacity on behalf of others and therefore are not available to support Authority programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements since they are not assets of the Authority available to support Authority programs. Currently, private-purpose trust funds are the only type of fiduciary funds that the Authority uses:

Private-purpose trust funds account for assets held by the Authority under the terms of a formal trust agreement where both the principal and income may be used to support individuals, private organizations or other governments as set forth in the trust agreement. The private-purpose trust funds of the Authority are as follows:

The Community Funded Transportation Fund accounts for funds used for reimbursement of community funded transportation.

The LTAF II Fund accounts for state general fund monies received from the Arizona Department of Transportation and distributed to the cities and county within the Authority's region.

Non-Current Governmental Assets and Liabilities

The governmental long-term assets are presented with the governmental activities in the government-wide Statement of Net Assets but are not presented in the fund financial statements in accordance with GASB No. 34.

d. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All funds are reported in the government-wide financial statements on the flow of economic resources measurement focus and accrual basis of accounting.

Governmental fund types are presented, in the fund financial statements, using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance is a measure of available spendable resources. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon thereafter to pay liabilities of the current period. The Authority considers revenues available under modified accrual, if they are earned by June 30 (all eligibility requirements have been met) and the revenue is expected to be collected within six months after year-end. Expenditures are recorded when the related fund liability is incurred.

When applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement No. 33 – *Recipient Reporting for Certain Shared Non-exchange Transactions* (Statement No. 33), receivables and revenues are recognized when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as deferred revenue.

Interest income is recognized on the modified accrual basis. Changes in fair value of investments are recognized in investment income at the end of the year.

Sales taxes, entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. For the governmental fund statements, grant revenue earned but not expected to be received within six months of year end is deferred.

Proprietary funds and private purpose trust funds are accounted for on the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income.

The accrual basis of accounting is used for proprietary fund types and private purpose trust funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

e. Budgetary Basis of Accounting

An annual budget of revenues and expenditures is prepared and adopted by the Board of Directors each fiscal year for all funds. The legal level of budgetary control is the total annual appropriated budget. Costs in excess of the total annual appropriated budget require approval of the Board of Directors. Transfers of appropriations between departments require the approval of the Executive Director. The annual budget is adopted on the modified accrual basis. Encumbrance accounting is not used and all appropriations lapse at year end. 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.

GASB Statement No. 34 requires that budgetary comparison statements for the general fund and major special revenue funds be presented in the annual financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis). The Authority has also shown this information as supplementary schedules for the nonmajor special revenue funds and the enterprise funds.

f. Deposits and Investments

State statutes authorize the Authority 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 State of Arizona's Local Government Investment Pool (LGIP). Currently the Authority invests only in the LGIP, which is operated by the Arizona State Treasurer's Office, as authorized by Arizona Revised Statutes, §35-326. Arizona Revised Statutes, §35-312 and §35-313 regulate authorized investments.

Local Government Investment Pool investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants' position in the pool approximates the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal.

The Authority maintains pooled cash and investments. Income from pooled cash and investments is allocated to the individual funds based on the fund's month end cash balance in relation to the total pooled cash and investments. Authority management has determined that the investment income related to all funds except the Valley Metro Rail Enterprise Fund should be allocated to the General Fund.

Each fund's equity in the pooled cash and investments is tracked on an ongoing basis. In the event that a certain fund overdraws its share of pooled cash, the overdraft is reported as a due to the General Fund at year-end.

g. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

h. Capital Assets

GASB No. 34 requires that all capital assets, whether owned by governmental activities or business-type activities, be recorded and depreciated (unless the modified approach is used) in the government-wide financial statements. No long-term assets or depreciation are shown in the governmental fund financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life greater than one year. The Authority has no public domain infrastructure (e.g., roads, bridges, sidewalks, and other assets that are immovable and of value only to the Authority) or capital construction projects. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. 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.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Life (Years)</u>
Equipment	7-15
Furniture and fixtures	7-15
Vehicles	
Cars and vans	4
Buses greater than 30 feet	10
Buses greater than 40 feet	12
Computers and software	3

Capital assets transferred between funds are transferred at their net book value (cost less accumulated depreciation) or net realizable value, if lower, as of the date of the transfer.

i. Transactions Between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported in the fund financial statements as "due to/from other funds". Also see Note 5 for further discussion of the interfund receivables/payables at June 30.

Certain transactions occurring between funds that are combined within the same fund type or displayed in the same financial statement column for presentation in these annual financial statements have been eliminated from the financial statements. In the government-wide financial statements, only the net interfund activity and balances between governmental activities and business-type activities are shown (reported as "internal balances").

j. Receivables

All receivables are shown net of an allowance for uncollectibles. Receivables primarily result from various grants awarded by the Federal Transit Administration and the Federal Highway Administration. These receivables are passed through to the Authority and are due from the City of Phoenix, Maricopa Association of Governments, Maricopa County, Pima County and the Arizona Department of Transportation as reimbursement for eligible grant expenditures.

k. Long-Term Obligation

The sole long-term obligation of the Authority is serviced by the Transit Service Operations Enterprise Fund which accounts for and services the capital purchase agreement discussed below.

During fiscal year 1993, the Authority entered into a capital purchase agreement with the City of Phoenix to acquire \$40,733,247 of transit capital equipment. In accordance with the agreement, the City of Phoenix, on behalf of the Authority, purchased transit capital equipment and received federal reimbursement under Federal Transit Administration Urbanized Area Formula Grants of \$34,786,184.

The remaining amount of \$5,947,063 was funded by the City of Phoenix, on behalf of the Authority, and charged back to the Authority in the form of a line of credit.

The line of credit bears interest at 5.5% from the date of each advance. Principal payments commenced on July 1, 1998, and shall continue on each January 1 and July 1 thereafter through and including July 1, 2005 upon which date all principal amounts due shall be repaid. The principal amortization may be extended for an additional five years provided that the Authority is granted or otherwise obtains a funding source which is reasonably equivalent to the funds the Authority is to receive and the funding source extends at least until the year 2010.

l. Compensated Absences

Employees of the Authority are entitled to 21-27 paid time off days (vacation and sick leave) per calendar year, depending upon length of service. Accumulated and unpaid time off at June 30 is accrued and included in Other Liabilities. The Authority does not provide post-employment benefits for its employees upon separation of service or retirement from service.

m. Cash Equivalents

The Authority considers short-term investments in the State of Arizona's Local Government Investment Pool, mutual fund-money market, U.S. Treasury bills and notes with maturities of three months or less at acquisition date to be cash equivalents.

n. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that

Valley Metro
Regional Public Transportation Authority
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2005

affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting financial period. Actual results could differ from these estimates.

2. Reconciliation of Governmental Fund Financial Statements to Government-Wide Statements

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliations briefly explaining the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements immediately follow each fund financial statement. Additional reconciliations are provided below.

Reconciliation of Governmental Funds Balance Sheet and the government-wide Statement of Net Assets:

	Total Governmental Funds	Long-term Assets/ Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
Assets				
Cash and investments	\$ 2,862,243	\$ -	\$ -	\$ 2,862,243
Receivables, net	790,806	-	-	790,806
Due from other funds	685,346	-	(437,249)	248,097
Other assets	40,351	-	-	40,351
Capital assets	-	233,870	-	233,870
Total assets	<u>\$ 4,378,746</u>	<u>\$ 233,870</u>	<u>\$ (437,249)</u>	<u>\$ 4,175,367</u>
Liabilities				
Accounts payable	\$ 290,849	\$ -	\$ -	\$ 290,849
Due to other funds	437,249	-	(437,249)	-
Due to other governments	78,599	-	-	78,599
Other liabilities	271,190	-	-	271,190
Total liabilities	<u>\$ 1,077,887</u>	<u>\$ -</u>	<u>\$ (437,249)</u>	<u>\$ 640,638</u>
Fund Balance/Net Assets				
Total fund balance/net assets	\$ 3,300,859	\$ 233,870	\$ -	\$ 3,534,729
Total liabilities and fund balance/net assets	<u>\$ 4,378,746</u>	<u>\$ 233,870</u>	<u>\$ (437,249)</u>	<u>\$ 4,175,367</u>

When capital assets that are to be used in governmental activities are purchased, the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the Authority as a whole:

Cost of capital assets	\$ 817,604
Accumulated depreciation	(583,734)
Capital assets, net	<u>\$ 233,870</u>

Valley Metro
Regional Public Transportation Authority
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2005

Interfund transactions between governmental activities of \$437,249 are eliminated in the consolidation of these activities for the statement of activities.

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities:

	Total Governmental Funds	Capital Purchases and Disposals	Depreciation	Statement of Activities Totals
Revenues				
Sales taxes	\$ 1,154,022	\$ -	\$ -	\$ 1,154,022
Intergovernmental	2,461,354	-	-	2,461,354
Charges for services	49,642	-	-	49,642
Interest earnings	103,981	-	-	103,981
Other	1,047	-	-	1,047
Total revenues	\$ 3,770,046	\$ -	\$ -	\$ 3,770,046
Expenditures/Expenses				
Current:				
Regional planning	715,365	-	-	715,365
Transportation demand management	1,932,275	-	-	1,932,275
Administration	856,404	-	-	856,404
Community funded transportation	51,652	-	-	51,652
Capital outlay	214,350	(134,425)	100,174	180,099
Total expenditures/expenses and other uses	3,770,046	(134,425)	100,174	3,735,795
Net change for the year	\$ -	\$ 134,425	\$ (100,174)	\$ 34,251

When capital assets that are to be used in governmental activities are purchased, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expenses. As a result, fund balance decreases by the amount of the financial resources expended for capital outlay (\$134,425), whereas net assets decrease by the amount of depreciation expense charged for the year (\$100,174).

3. Budget Basis of Accounting

The annual budget is adopted on a modified accrual basis as discussed in Note 1. The budget is adopted by department within the respective funds. The legal level of budgetary control is the total annual appropriate budget. Costs in excess of the total annual appropriated budget require approval of the Board or Directors. Transfers of appropriations between departments require the approval of the Executive Director. During the fiscal year, the Board of Directors approved the reduction of appropriations of \$1.8 million, due primarily to delays in the purchase of fleet vehicles and fareboxes.

Budgetary comparison schedules for the general fund and major special revenue funds are included with the basic financial statements. Schedules of revenues, expenditures and changes in fund balances – budget and actual for nonmajor special revenue funds and schedules of operations – budget and actual for business-type activities are presented as

supplementary information. Where necessary, a reconciliation has been provided of the adjustments required to convert the budgetary revenues and expenditures or changes in net assets on a budgetary basis to revenues and expenditures/expenses or change in net assets on a GAAP basis.

4. Deposits and Investments

The Authority maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the government-wide Statement of Net Assets as "Cash and Investments".

a. Deposits

The Authority's deposits during the year and at fiscal year end were entirely covered by federal depository insurance or by collateral held by the Authority's servicing bank in the Authority's name. The carrying amount of the Authority's deposits at June 30, 2005, was \$676,239 and the bank ledger balance was \$3,780,896. The difference of \$3,104,657 represents deposits in transit and outstanding checks.

b. Investments

Interest Rate Risk. As a means of managing its exposure to fair value losses arising from increasing interest rates, the Authority's investment policy provides for matching investment maturities with anticipated cash flow requirements while maintaining an emphasis on liquidity. Unless matched to a specific cash flow requirement, the Authority will not directly invest in securities maturing more than two years from the date of purchase. Historically, the Authority has limited its investments to participation in the State of Arizona's Local Government Investment Pool (LGIP).

Credit Risk. State statutes authorize the Authority 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 LGIP. The Authority's investment policy does not further limit its investment choices. The LGIP is operated by the Arizona State Treasurer's Office, as authorized by Arizona Revised Statutes §35-326. Arizona Revised Statutes §35-312 and §35-313 regulate authorized investments. The LGIP is overseen according to Arizona State Statute by the State Board of Deposit. The Authority's investment in the LGIP is stated at fair value, which is the same as the value of the Authority's pool shares. The LGIP does not receive a credit quality rating.

Investments at June 30, 2005, consist of the following:

	<u>Carrying Amount</u>	<u>Fair Value</u>
State of Arizona Local Government Investment Pool	\$ 4,217,639	\$ 4,217,639

Governmental Accounting Standards Board Statement No. 40 provides for disclosures of custodial credit risk associated with investment securities. An exception is provided for investments in external investment pools and for investments in open-end mutual funds.

Valley Metro
Regional Public Transportation Authority
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2005

Cash and investments at June 30, 2005 consisted of the following:

Carrying amount of the Authority's deposits	\$ 676,239
Investments in the LGIP	4,217,639
Total cash and investments	<u>4,893,878</u>
Less: Cash and investments of Fiduciary funds	30,596
Total cash and investments per statement of net assets	<u><u>\$ 4,863,282</u></u>

5. Accounts Receivable and Interfund Transactions

Accounts receivable are recorded in the various funds and displayed in the financial statements. All receivable balances at June 30, 2005 are expected to be collected in full; therefore, an allowance for uncollectibles has not been recorded.

Net interfund receivables and payables between governmental activities and business-type activities of \$248,097 are included in the government-wide financial statements at June 30, 2005. The following interfund receivables and payables are included in the fund financial statements at June 30, 2005:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental funds:		
General fund	\$ 666,746	\$ -
Transit planning	18,600	-
Transportation demand management	-	427,643
Capital and other grants	-	9,606
Total governmental funds	<u>685,346</u>	<u>437,249</u>
Enterprise funds:		
Regional customer services	-	248,097
Total enterprise funds	<u>-</u>	<u>248,097</u>
Grand totals	<u><u>\$ 685,346</u></u>	<u><u>\$ 685,346</u></u>

The interfund balances at June 30, 2005 are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to grant and other reimbursements. All interfund balances outstanding at June 30, 2005 are expected to be repaid within one year.

6. Fund Balance/Net Assets Reservations and Designations

General Fund:

Unrestricted and Unreserved/Designated - At June 30, 2005, \$350,173 of fund balance was designated by management for the payment of accrued compensated absences.

Unrestricted and Unreserved/Undesignated - At June 30, 2005, \$2,950,686 of fund balance was unreserved and undesignated.

Transit Service Operations Enterprise Fund:

Restricted for Vanpool Vehicle Replacement - At June 30, 2005, \$1,437,001 was restricted for replacement of vanpool vehicles.

Restricted for Transit Vehicle Replacement - At June 30, 2005, \$390,191 was restricted for replacement of transit vehicles purchased with federal grant monies.

Unrestricted but Designated for Capital Projects - At June 30, 2005, \$868,929 was designated by management for completing the following capital projects: \$290,289 for mid-life bus rebuilds; \$478,640 for fare collection systems; and \$100,000 for East Valley facility improvements.

Unrestricted but Designated for Debt Service - At June 30, 2005, \$412,647 was designated for payment of future amounts of principal and interest arising from the capital purchase agreement with the City of Phoenix (Note 8).

Unrestricted - At June 30, 2005, \$18,204 of fund balance was unrestricted and undesignated.

Valley Metro
Regional Public Transportation Authority
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2005

7. Capital Assets

A summary of capital asset activity, for the government-wide financial statements, for the year ended June 30, 2005:

	Balances, July 1, 2004	Additions/ Transfers in	Disposals/ Transfers out	Balances, June 30, 2005
Governmental activities:				
Depreciable assets:				
Computers & software	\$ 418,795	\$ 71,059	\$ -	\$ 489,854
Equipment	148,218	18,251	-	166,469
Vehicles	74,165	17,275	(14,630)	76,810
Furniture & fixtures	56,631	27,840	-	84,471
Total depreciable assets at historical cost	697,809	134,425	(14,630)	817,604
Less accumulated depreciation for:				
Computers & software	(297,808)	(76,809)	-	(374,617)
Equipment	(128,996)	(6,983)	-	(135,979)
Vehicles	(61,055)	(7,778)	14,630	(54,203)
Furniture & fixtures	(10,331)	(8,604)	-	(18,935)
Total accumulated depreciation	(498,190)	(100,174)	14,630	(583,734)
Governmental activities capital assets, net	\$ 199,619	\$ 34,251	\$ -	\$ 233,870
Business-type activities:				
Non-depreciable assets:				
Work in progress -				
Vehicle management system	\$ 1,560,673	\$ 811,823	\$ -	\$ 2,372,496
Voice recording/quality monitoring system	-	288,203	-	288,203
LNG fuel station	-	548,493	-	548,493
Total work in progress	1,560,673	1,648,519	-	3,209,192
Depreciable assets:				
Transit fleet	38,691,146	2,422,200	(1,667,369)	39,445,977
Computers & software	157,911	130,676	-	288,587
Equipment	-	91,590	-	91,590
Furniture & fixtures	30,428	97,226	-	127,654
Total depreciable assets at historical cost	38,879,485	2,741,692	(1,667,369)	39,953,808
Less accumulated depreciation for:				
Transit fleet	(27,674,086)	(4,229,265)	1,624,988	(30,278,363)
Computers & software	(61,285)	(60,296)	-	(121,581)
Equipment	-	(2,449)	-	(2,449)
Furniture & fixtures	(2,188)	(13,113)	-	(15,301)
Total accumulated depreciation	(27,737,559)	(4,305,123)	1,624,988	(30,417,694)
Business-type activities capital assets, net	\$ 12,702,599	\$ 85,088	\$ (42,381)	\$ 12,745,306

Valley Metro
Regional Public Transportation Authority
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2005

Depreciation expense was charged to the following functions in the basic financial statements:

	<u>Government- Wide</u>	<u>Business- Type</u>
General government	\$ 100,174	\$ -
Transit service operations	-	4,239,377
Regional customer services	-	65,746
Total depreciation expense	<u>\$ 100,174</u>	<u>\$ 4,305,123</u>

8. Long-Term Obligation

As discussed in Note 1 (k), the sole long-term obligation of the Authority is the capital purchase agreement with the City of Phoenix, which is serviced by the Transit Service Operations Enterprise Fund. The following table discloses the debt service requirements as of June 30, 2005 segregating principal and interest, for the remaining life of the capital purchase agreement.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>\$ 412,647</u>	<u>\$ 11,348</u>	<u>\$ 423,995</u>

The following changes in long-term obligations occurred during the year ended June 30, 2005:

	<u>Balance, July 1, 2004</u>	<u>Principal Payments</u>	<u>Balance, June 30, 2005</u>	<u>Amount Due Within One Year</u>
Obligation to City of Phoenix under capital purchase agreement	<u>\$ 1,205,105</u>	<u>\$ (792,458)</u>	<u>\$ 412,647</u>	<u>\$ 412,647</u>

9. Operating Leases

The Authority leases office space under various operating lease agreements. Total rent expenditures for these leases were \$542,886 for the fiscal year ended June 30, 2005. The future minimum lease payments under noncancelable operating leases at June 30, 2005 were as follows:

<u>Year Ending June 30</u>	
2006	<u>\$ 266,148</u>

The substantial increase in rent for FY 2005 is due to assumption of the lease for the Regional Services Department office space; this was previously paid directly by a private contractor.

10. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Authority purchases insurance coverage for property, general liability, automobile liability, umbrella liability, commercial crime, public entity employment practices liability, public entity management liability and excess liability. In addition, the Authority purchases workers' compensation, employee life insurance and health and dental insurance coverage for all of its full-time employees. Settled claims for these risks have never exceeded commercial insurance limits and there were no significant changes in insurance coverage from the prior year. Insurance coverage for transit operations is carried by the contracted operators of service; the operators indemnify the Authority for all liability arising from transit operations.

11. Retirement and Pension Plans

The Authority provides pension benefits for all of its full-time employees through a single-employer defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Regional Public Transportation Authority Money Purchase Plan and Trust (the Plan) was effective October 1, 1994, under Section 401(a) of the Internal Revenue Code. The Authority is of the opinion that the Plan fulfills the requirements of a qualified plan under the provisions of the Internal Revenue Code, however, a favorable determination letter has not been requested. Employees are eligible and fully vested in the Plan after one year of service with the Authority. The Authority, as directed by the Board of Directors, contributed an amount equal to 10% of each employee's salary each pay period. During the year, no employee contributions were made to the Plan. The Plan does not include any loan provisions. The Authority's total payroll and total covered payroll for the year ended June 30, 2005 was approximately \$4,160,000. All required employer contributions were made in accordance with plan provisions and amounted to approximately \$416,000 or 10% of total covered payroll.

12. Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. As required by the Internal Revenue Code, the Authority established a trust for the assets and income of the Plan with an independent trustee for the exclusive benefit of participants and their beneficiaries. In accordance with Governmental Accounting Standards Board Statement No. 32, the Authority does not account for or report the Deferred Compensation Plan in the financial records.

13. Contractual and Other Commitments

a. Underground Storage Tank Revolving Fund Replenishment

In fiscal year 1994, the Arizona State Legislature allocated \$6,000,000 to the Authority from the Arizona Area A portion of the underground storage tank revolving fund. Beginning with the first fiscal year and in each subsequent fiscal year that the Authority is allocated at least \$2,000,000 from the Lottery, the amount allocated to the Authority will be reduced by a maximum of \$2,000,000 each fiscal year until a total of \$6,000,000 has been withheld to replenish the underground storage tank revolving fund. In the event the Authority does not receive at least \$2,000,000 from the Lottery in a given year, no amounts will be withheld from the respective year's allocation. The Authority received a Lottery distribution of \$1,760,759 in fiscal year 1998 which is the only year the Authority has received a Lottery distribution.

b. Commitments

The Authority has entered into various contracts for the administration and operation of transit services, travel demand management services, and regional transit planning. Commitments under these contracts exist only to the extent that services are requested or provided, and all contracts provide for cancellation without cause.

14. Contingencies

As a subrecipient of federal and state 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 of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

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 \$131 million of the total \$4 billion in the LGIP, are backed by payments from Medicare/Medicaid and other creditworthy issuers. The Authority's proportional share of the \$131 million was \$223,150. Of the \$223,150, \$88,792 was invested on behalf of Valley Metro Rail, Inc. NCFE has filed bankruptcy and come under investigation by the Federal Bureau of Investigation and the Securities and Exchange Commission. The Authority has joined in a lawsuit with 93 other Arizona governmental entities and 90 other plaintiffs against several parties in an effort to recover the Authority's investment.

During the fiscal year ended June 30, 2005, the Authority received two distributions of payouts of funds being held by the Indenture Trustee for NCFE securities totaling \$25,540 plus interest on those amounts totaling \$75. Of the total \$25,615 received, \$10,192 was allocated to Valley Metro Rail, Inc. As of June 30, 2005, the balance was reduced to \$197,535 which is included in cash and investments on the Authority's financial statements. Of the \$197,535, \$78,600 is invested on behalf of Valley Metro Rail, Inc. and is recorded as due to other governments in the Authority's financial statements. In September 2005, the

Valley Metro
Regional Public Transportation Authority
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2005

Authority received an additional distribution of \$6,804 plus interest of \$17. Of the \$6,821 received in September, \$2,714 was allocated to Valley Metro Rail, Inc. At this point in time, it is impossible to determine the Authority's financial exposure, if any, due to the aforementioned events.

15. Excess of Expenditures over Appropriations

In the following funds, expenditures exceeded final budget at the department level (i.e., the controlled level of budgetary control):

General Fund – excess of \$1,728
Transportation Demand Management fund – excess of \$186,275
Capital and Other Grants fund – excess of \$84,350

In all funds, the excess was entirely covered with excess revenues and did not result in a fund deficit.



**Regional
Public
Transportation
Authority**

**Valley Metro
Regional Public Transportation Authority**

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Transit Planning
Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts (budgetary basis)</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Resources (inflows):				
State sources:				
Sales taxes	\$ 486,086	\$ 527,121	\$ 309,082	\$ (218,039)
Federal sources:				
Federal Transit Administration	894,720	894,720	353,738	(540,982)
CMAQ	-	-	12,903	12,903
Charges for services	110,000	110,000	39,642	(70,358)
Total revenues	<u>1,490,806</u>	<u>1,531,841</u>	<u>715,365</u>	<u>(816,476)</u>
Charges to appropriations (outflows):				
Current:				
Long range	164,663	164,663	162,287	(2,376)
Short range	730,084	730,084	145,690	(584,394)
Capital	364,739	364,739	236,219	(128,520)
Program support	231,320	272,355	171,169	(101,186)
Total expenditures	<u>1,490,806</u>	<u>1,531,841</u>	<u>715,365</u>	<u>(816,476)</u>
Net change in fund balances	-	-	-	-
Budgetary fund balance, beginning	-	-	-	-
Budgetary fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Valley Metro
Regional Public Transportation Authority**

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Capital and Other Grants
Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (budgetary basis)	Variance with Final Budget Over (Under)
	Original	Final		
Resources (inflows):				
State sources:				
Sales taxes	\$ 26,000	\$ 26,000	\$ 41,912	\$ 15,912
Federal sources:				
Federal Transit Administration	104,000	104,000	172,438	68,438
Total revenues	<u>130,000</u>	<u>130,000</u>	<u>214,350</u>	<u>84,350</u>
Charges to appropriations (outflows):				
Capital outlay	130,000	130,000	214,350	84,350
Total expenditures	<u>130,000</u>	<u>130,000</u>	<u>214,350</u>	<u>84,350</u>
Net change in fund balances	-	-	-	-
Budgetary fund balance, beginning	-	-	-	-
Budgetary fund balance, ending	<u>\$</u>	<u>\$</u>	<u>\$ -</u>	<u>\$</u>

**Valley Metro
Regional Public Transportation Authority**

Schedule of Operations - Budget and Actual
Transit Service Operations Fund
Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (budgetary basis)	Variance with Final Budget Over (Under)
	Original	Final		
Operating Revenues:				
Charges for services	\$ 24,128,224	\$ 23,966,364	\$ 24,057,258	\$ 90,894
Total operating revenues	<u>24,128,224</u>	<u>23,966,364</u>	<u>24,057,258</u>	<u>90,894</u>
Operating Expenses:				
Local & express bus service	23,244,677	23,391,567	23,819,316	427,749
Paratransit service	5,804,815	5,804,815	5,716,603	(88,212)
Vanpool service	481,839	481,839	549,620	67,781
Administrative and general	57,045	57,045	482,442	425,397
Capital outlay	7,338,126	5,039,076	4,340,336	(698,740)
Total operating expenses	<u>36,926,502</u>	<u>34,774,342</u>	<u>34,908,317</u>	<u>133,975</u>
Operating income (loss)	(12,798,278)	(10,807,978)	(10,851,059)	(43,081)
Non-Operating Revenues (Expenses):				
Sales taxes	5,597,260	5,887,549	6,199,184	311,635
Federal Transit Administration grants	7,099,426	5,568,936	4,910,251	(658,685)
Local member participation	421,137	421,137	387,845	(33,292)
Principal payments	(792,458)	(792,458)	(792,458)	-
Interest expense	(55,532)	(55,532)	(55,532)	-
Total nonoperating revenues (expenses)	<u>12,269,833</u>	<u>11,029,632</u>	<u>10,649,290</u>	<u>(380,342)</u>
Excess revenues over expenses - budgetary basis	<u>\$ (528,445)</u>	<u>\$ 221,654</u>	<u>\$ (201,769)</u>	<u>\$ (423,423)</u>

Explanation of differences between budgetary basis and GAAP basis

Excess revenues over expenses - budgetary basis	(201,769)
Capital outlay is an expense for budgetary purposes, but assets are capitalized and are not an expense for GAAP purposes	4,340,336
Debt principal payments are an expense for budgetary purposes, but are a reduction of long-term obligations and therefore not an expense GAAP purposes	792,458
Interest payable on July 1 is budgeted on a cash basis, but is accrued for GAAP purposes	21,792
Depreciation is not a budgeted expense, but are expenses for GAAP purposes.	(4,239,377)
The gain on disposal of capital assets is not a budgeted expense, but is a revenue for GAAP purposes	6,806
Changes in net assets per the statement of revenues, expenses and changes in fund net assets	<u>\$ 720,246</u>

This schedule is prepared on a budgetary basis for the operating accounts of the proprietary fund and as such does not present the results of operations on the basis of generally accepted accounting principles, but is presented for supplemental information.

Valley Metro
Regional Public Transportation Authority
 Schedule of Operations - Budget and Actual
 Regional Customer Services Fund
 Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts (budgetary basis)</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues:				
Charges for services	\$ 5,512,777	\$ 5,512,777	\$ 4,962,128	\$ (550,649)
Total operating revenues	<u>5,512,777</u>	<u>5,512,777</u>	<u>4,962,128</u>	<u>(550,649)</u>
Operating Expenses:				
Regional customer services	5,838,145	5,838,145	5,057,372	(780,773)
Capital outlay	111,000	71,000	545,900	474,900
Total operating expenses	<u>5,949,145</u>	<u>5,909,145</u>	<u>5,603,272</u>	<u>(305,873)</u>
Operating income (loss)	(436,368)	(396,368)	(641,144)	(244,776)
Non-Operating Revenues (Expenses):				
Sales taxes	396,368	396,368	360,160	(36,208)
Federal Transit Administration grants	40,000	-	230,562	230,562
Interest income	-	-	2,774	2,774
Total nonoperating revenues (expenses)	<u>436,368</u>	<u>396,368</u>	<u>593,496</u>	<u>197,128</u>
Excess revenues over expenses - budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (47,648)</u>	<u>\$ (47,648)</u>

Explanation of differences between budgetary basis and GAAP basis

Excess revenues over expenses - budgetary basis	\$ (47,648)
Capital outlay is an expense for budgetary purposes, but assets are capitalized and are not an expense for GAAP purposes	545,900
Depreciation is not a budgeted expense, but are expenses for GAAP purposes.	<u>(65,746)</u>
Changes in net assets per the statement of revenues, expenses and changes in fund net assets	<u>\$ 432,506</u>

This schedule is prepared on a budgetary basis for the operating accounts of the proprietary fund and as such does not present the results of operations on the basis of generally accepted accounting principles, but is presented for supplemental information.

Valley Metro
Regional Public Transportation Authority
 Schedule of Operations - Budget and Actual
 Valley Metro Rail Fund
 Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts (budgetary basis)	Variance with Final Budget Over (Under)
	Original	Final		
Operating Revenues:				
Charges for services				
Total operating revenues	\$ 5,122,874	\$ 5,122,874	\$ 3,667,400	\$ (1,455,474)
	<u>5,122,874</u>	<u>5,122,874</u>	<u>3,667,400</u>	<u>(1,455,474)</u>
Operating Expenses:				
Light rail staff and administration	5,122,874	5,122,874	3,667,400	(1,455,474)
Total operating expenses	<u>5,122,874</u>	<u>5,122,874</u>	<u>3,667,400</u>	<u>(1,455,474)</u>
Operating income (loss)	-	-	-	-
Non-Operating Revenues (Expenses):				
Federal Transit Administration grants	-	-	-	-
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess revenues over expenses - budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

This schedule is prepared on a budgetary basis for the operating accounts of the proprietary fund and as such does not present the results of operations on the basis of generally accepted accounting principles, but is presented for supplemental information.

Valley Metro
Regional Public Transportation Authority
Schedule of Capital Assets
By Functions and Activities
June 30, 2005

Asset Type	Governmental	Business-Type Activities		
	Activities	Transit	Regional	
	General	Service	Customer	Total
	Governmental	Operations	Services	
Work-in-progress	\$ -	\$ 2,920,989	\$ 288,203	\$ 3,209,192
Transit fleet	-	39,445,977	-	39,445,977
Computers & software	489,854	3,858	284,729	288,587
Equipment	166,469	18,682	72,908	91,590
Vehicles	76,810	-	-	-
Furniture & fixtures	84,471	90,761	36,893	127,654
Total capital assets	817,604	42,480,267	682,733	43,163,000
Less accumulated depreciation	(583,734)	(30,289,118)	(128,576)	(30,417,694)
Capital assets, net	\$ 233,870	\$ 12,191,149	\$ 554,157	\$ 12,745,306

Valley Metro
Regional Public Transportation Authority
Schedule of Changes in Capital Assets
By Functions and Activities
June 30, 2005

	Balances, June 30, 2004	Additions/ Transfers in	Disposals/ Transfers out	Balances, June 30, 2005
Governmental activities:				
General government	\$ 697,809	\$ 134,425	\$ (14,630)	\$ 817,604
Less accumulated depreciation	(498,190)	(100,174)	14,630	(583,734)
Governmental activities capital assets, net	<u>\$ 199,619</u>	<u>\$ 34,251</u>	<u>\$ -</u>	<u>\$ 233,870</u>
Business-type activities:				
Transit services operations	\$ 40,255,677	\$ 3,891,959	\$ (1,667,369)	\$ 42,480,267
Regional customer services	184,481	498,252	-	682,733
Total depreciable assets at historical cost	<u>40,440,158</u>	<u>4,390,211</u>	<u>(1,667,369)</u>	<u>43,163,000</u>
Less accumulated depreciation for:				
Transit services operations	(27,674,729)	(4,239,377)	1,624,988	(30,289,118)
Regional customer services	(62,830)	(65,746)	-	(128,576)
Total accumulated depreciation	<u>(27,737,559)</u>	<u>(4,305,123)</u>	<u>1,624,988</u>	<u>(30,417,694)</u>
Business-type activities capital assets, net	<u>\$ 12,702,599</u>	<u>\$ 85,088</u>	<u>\$ (42,381)</u>	<u>\$ 12,745,306</u>

Statistical Section

The Statistical Section includes selected financial and demographic information regarding the Authority.

STATISTICAL

**Valley Metro
Regional Public Transportation Authority**

Schedule of Insurance Coverage

June 30, 2005

The Authority employs the firm of Marsh Advantage as its broker for the purchase of insurance. The Authority's commercial insurance program consists of the following:

Type of Insurance	Expiration	Insurance Carrier	Limits
I. Commercial Property	12/18/05	St. Paul Fire and Marine	
		Business personal property	\$646,800 Aggregate
		Newly acquired personal property	\$500,000 Aggregate
		Newly acquired property	\$1,000,000 Aggregate
		Personal belongings	\$50,000 Aggregate
II. Commercial General Liability	12/18/05	St. Paul Fire and Marine	\$2,000,000 Total limit
III. Commercial Automobile	12/18/05	St. Paul Fire and Marine	\$1,000,000 Per accident
IV. Commercial Umbrella Liability	12/18/05	St. Paul Fire and Marine	\$9,000,000 Each occurrence \$9,000,000 Aggregate
V. Public Entity Management Liability	12/18/05	St. Paul Fire and Marine	\$1,000,000 Each loss \$1,000,000 Aggregate
VI. Public Entity Employment Practices Liability	12/18/05	St. Paul Fire and Marine	\$5,000,000 Each offense \$5,000,000 Aggregate
VII. Commercial Crime	12/18/05	St. Paul Fire and Marine	\$1,000,000 Per loss
VIII. Excess Errors and Omissions Liability	12/18/05	St. Paul Fire and Marine	\$9,000,000 Total limit

Valley Metro
Regional Public Transportation Authority
 General Governmental Operating Expenditures by Function (1) (2)
 Last Ten Fiscal Years

Fiscal Year	Personnel	Supplies & Services	Rent	Consultants	Transit Service Contracts
2005	\$ 1,648,431	\$ 1,127,675	\$ 76,155	\$ 619,158	\$ -
2004	1,433,672	985,213	38,317	470,440	-
2003	1,392,690	900,800	58,061	681,608	-
2002	1,338,838	1,115,266	68,751	755,764	-
2001	1,215,583	1,186,741	95,386	897,839	-
2000	1,812,323	1,322,652	297,542	7,403,321	16,099,075
1999	1,587,937	796,527	291,022	2,903,961	12,957,065
1998	1,451,149	722,753	310,549	496,750	12,167,321
1997	1,373,529	1,203,647	265,799	379,427	10,320,570
1996	1,355,849	565,901	265,646	336,075	8,162,523

- (1) General governmental includes the General Fund and Special Revenue Funds.
- (2) With the implementation of GASB Statement #34 in FY 2002, activities related to transit service operations, light rail transit and regional customer services were changed from general governmental to proprietary (business-type). Therefore, the functional expenditures listed for FY 2000 and earlier include the activities of these functions as part of general governmental, and the activities listed for FY 2001 and later exclude these activities from general governmental. As a result, most expenditure categories will be greater for FY 2000 and prior years and should not be used as comparative data against FY 2001 activity and beyond.
- (3) The Community Funded Transportation (CFT) program was substantially reduced by the Board of Directors in FY 2003.

Regional Customer Services	CFT (3)	Capital & Equipment	Debt Service	Total
\$ -	\$ 51,652	\$ 214,350	\$ -	\$ 3,737,421
-	51,652	115,173	-	3,094,467
-	51,652	117,333	-	3,202,144
-	1,000,000	153,369	-	4,431,988
-	1,000,000	93,253	-	4,488,802
3,193,450	1,000,000	5,306,887	821,004	37,256,254
3,061,125	1,000,000	1,269,570	819,488	24,686,695
2,233,249	1,000,000	547,481	760,505	19,689,757
-	1,000,000	8,032,527	666,345	23,241,844
-	1,000,000	1,832,698	249,845	13,768,537

Valley Metro
Regional Public Transportation Authority
 General Governmental Operating Revenues by Source (1) (2)
 Last Ten Fiscal Years

Fiscal Year	State Sources		FTA	CMAQ	Other Federal Grants
	Sales Tax	Other (2)			
2005	\$ 1,154,022	\$ 400,000	\$ 526,176	\$ 1,493,178	\$ 42,000
2004	3,071,725	400,000	335,365	1,264,654	42,000
2003	2,587,302	400,000	599,460	1,312,424	42,000
2002	1,941,168	409,000	553,492	1,604,348	42,000
2001	1,303,120	409,000	660,261	1,613,630	47,559
2000	7,090,674	499,000	12,493,388	1,377,592	45,122
1999	7,019,772	409,000	3,770,877	1,125,073	66,977
1998	6,883,299	2,361,872	1,533,649	879,790	38,450
1997	6,750,424	967,803	7,955,764	820,287	41,726
1996	6,587,196	473,658	2,392,132	937,566	341,624

- (1) General governmental includes the General Fund and Special Revenue Funds.
- (2) With the implementation of GASB Statement #34 in FY 2002, activities related to transit service operations, light rail transit and regional customer services were changed from general governmental to proprietary (business-type). Therefore, the functional expenditures listed for FY 2000 and earlier include the activities of these functions as part of general governmental, and the activities listed for FY 2001 and later exclude these activities from general governmental. As a result, most revenue categories will be greater for FY 2000 and prior years and should not be used as comparative data against FY 2001 activity and beyond.

Local Member Participation	Transit Services Reimburse- ments	Regional Customer Services Reimburse- ments	Interest & Other	Total
\$ 49,642	\$ -	\$ -	\$ 105,028	\$ 3,770,046
32,501	-	-	84,943	5,231,188
-	-	-	89,501	5,030,687
-	-	-	167,272	4,717,280
-	-	-	455,232	4,488,802
1,596,747	10,040,207	2,982,908	534,034	36,659,672
926,956	7,366,090	2,757,960	444,458	23,887,163
61,163	6,122,705	1,911,662	464,644	20,257,234
-	4,581,929	-	472,131	21,590,064
-	3,207,794	-	625,879	14,565,849

**Valley Metro
Regional Public Transportation Authority**

Performance Statistics
By System FY 2004/05 (1)

	Total Boardings	Revenue Miles	Revenue Hours	Operating Cost	Operating Cost Per Boarding	Farebox Recovery Ratio
Fixed Route System (2)						
City of Phoenix Transit System	42,909,870	17,420,722	1,146,819	\$ 89,543,836	\$ 2.09	27.0 %
Regional Public Transportation Authority	6,203,696	4,379,307	276,517	33,149,327	5.34	10.8
Tempe	4,805,598	3,797,053	311,852	15,738,112	3.27	17.3
Glendale - Luke Link	93,024	139,789	7,962	218,243	2.35	26.8
Total Fixed Route System	54,012,188	25,736,871	1,743,150	\$ 138,649,518	2.57	22.2
Shuttle/Circulator System (2)						
City of Phoenix - DASH & ALEX	794,945	601,547	38,156	\$ 2,386,820	\$ 3.00	0.0 %
City of Tempe - FLASH, NF & NB	199,795	475,609	39,831	1,835,387	9.19	0.0
City of Scottsdale - Scottsdale Roundup	92,139	NR	NR	547,764	5.94	0.0
City of Glendale - GUS	82,569	10,295	8,301	144,934	1.76	11.0
Total Shuttle/Circulator System	1,169,448	1,087,451	86,288	\$ 4,914,905	4.20	N/A
Dial-a-Ride System (2)						
Phoenix Dial-a-Ride	393,053	4,084,991	274,099	\$ 12,375,234	\$ 31.48	4.0 %
Phoenix Reserve-a-Ride	152,631	518,616	47,282	2,853,105	18.69	2.7
East Valley Dial-a-Ride	223,130	1,622,795	118,032	5,572,010	24.97	6.6
Maricopa County STS	105,342	523,119	41,189	3,249,859	30.85	0.0
Sun Cities Area Transit	58,069	254,897	22,648	714,915	12.31	21.3
Glendale Dial-a-Ride	87,831	386,587	29,554	2,247,156	25.58	5.0
Peoria Dial-a-Ride	33,805	153,805	8,258	827,786	24.49	4.0
El Mirage	1,558	10,017	NR	70,459	45.22	1.7
Surprise Dial-a-Ride	9,925	52,356	5,047	283,624	28.58	3.4
Total Dial-a-Ride System	1,065,344	7,607,183	546,109	\$ 28,194,148	26.46	4.4

NR Not reported

- (1) Source: Performance Management Analysis System, FY 2005 prepared by the Regional Public Transportation Authority.
- (2) Fixed route and dial-a-ride systems are comprised of various operators and contractors of service in Maricopa County; as the regional authority, the Regional Public Transportation Authority in its role compiles and reports on system efficiency and effectiveness performance indicators.

Valley Metro
Regional Public Transportation Authority
 Position Listing and Salary Ranges

Pay Grade	FY 2005 Salary Range	Position Titles
I	\$24,999 - \$36,934	Administrative Secretary/Receptionist
II	\$27,498 - \$40,629	Administrative Assistant
III	\$30,248 - \$44,691	Document Control Administrator
IV	\$33,273 - \$49,161	Executive Assistant Quality Assurance Specialist
V	\$36,601 - \$54,076	Account Executive Accountant I Planner I Procurement & Contracts Specialist
VI	\$40,261 - \$59,484	Area Coordinator Data Management Coordinator Employer Services & Training Coordinator Fleet Services Coordinator Human Resources & Office Coordinator Marketing Coordinator Operations Coordinator Public Art Coordinator Senior Communications Specialist Vanpool Coordinator
VII	\$44,288 - \$65,432	Accountant II Contract Administrator
VIII	\$48,716 - \$71,975	Light Rail Compliance Officer Planner III Program Control Specialist Senior Contract Administrator
IX	\$53,587 - \$79,173	Communications Manager DBE Outreach Manager Public Involvement Manager Real Estate Manager Senior Program Control Specialist
X	\$58,946 - \$87,090	Architectural/Urban Design Manager Contracts & Procurement Manager Finance & Budget Manager Maintenance Manager Operations Manager Planning Manager Project Engineer Quality Assurance Manager Systems Engineering Manager Transportation Demand Management Manager
XI	\$64,841 - \$100,590	Deputy Executive Director, RPTA Director of Community Relations, VMR Director of Government Relations, VMR Safety & Security Officer
XII	\$84,293 - \$130,766	Director, Operations & Maintenance, VMR Director of Design & Construction, VMR Director of Program Control & Admin., VMR
ED	Salary Set by RPTA Board Salary Set by VMR Board	Executive Director, RPTA Chief Executive Officer, VMR

**Valley Metro
Regional Public Transportation Authority**
Miscellaneous Statistics

The Regional Public Transportation Authority ("Authority") was established in 1985 to develop a regional transit plan and to develop and operate a regional transit system in Maricopa County, Arizona. The Authority is governed by a twelve-member Board of Directors consisting of a member of the Maricopa County Board of Supervisors, and the mayors (or their designees) of the cities of Avondale, Chandler, El Mirage, Glendale, Mesa, Peoria, Phoenix, Scottsdale, Surprise, Tempe and the Town of Gilbert. Any municipality in Maricopa County may join the Authority and have one elected official serve on the Board of Directors by committing a portion of its local transportation assistance funds to local public transportation.

	Population			
	2004 (1)	2000 (2)	1990 (2)	1980 (2)
Maricopa County	3,524,175	3,072,149	2,122,101	1,509,175
Avondale	60,255	35,883	16,169	8,168
Chandler	220,705	176,581	89,862	29,673
El Mirage	28,310	7,609	5,001	4,307
Gilbert	164,685	109,697	29,122	5,717
Glendale	233,330	218,812	147,864	97,172
Mesa	447,130	396,375	288,104	152,404
Peoria	132,300	108,364	50,675	12,171
Phoenix	1,416,055	1,321,045	983,392	789,704
Scottsdale	221,130	202,705	130,075	88,622
Surprise	63,960	30,848	7,122	3,723
Tempe	160,820	158,625	141,993	106,920

State legislation designates that 100% of the proceeds received by participating municipalities with 300,000 or more in population from the Arizona State Lottery, known as local transportation assistance funds, must be expended for public transportation in the respective municipalities to maintain a position on the Authority's Board of Directors. For all other municipalities, the requirement is 33.3% for cities with a population between 300,000 and 60,000 and 75% for cities with less than 60,000 population. Local transportation assistance funds ("LTAF") and minimum public transportation expenditures for participating municipalities for the year ended June 30, 2005 were as follows:

	Local Transportation Assistance Funds (3)		
	LTAF Received	Minimum Local Expenditures Required	Percentage
Avondale	\$ 277,421	\$ 208,066	75.0%
Chandler	1,072,387	357,462	33.3%
El Mirage	130,312	97,734	75.0%
Gilbert	778,323	259,441	33.3%
Glendale	1,186,391	395,464	33.3%
Mesa	2,233,853	2,233,853	100.0%
Peoria	650,326	216,775	33.3%
Phoenix	7,138,976	7,138,976	100.0%
Scottsdale	1,119,229	373,076	33.3%
Surprise	265,383	199,037	75.0%
Tempe	821,152	273,717	33.3%

(1) Source: Arizona Department of Economic Security, 2004 Population Estimates

(2) Source: U.S. Census

(3) Source: State of Arizona, Office of the Treasurer

Single Audit Section

The Single Audit Section includes the Authority's schedule of expenditures of federal awards, and the independent auditors' reports on internal controls and compliance with applicable laws and regulations.

Valley Metro
Regional Public Transportation Authority
 Supplementary Schedule of Expenditures of Federal Awards
 Fiscal Year Ended June 30, 2005

Federal Grantor Agency and Program Title	CFDA Number	Pass-Through Grantor	Pass-Through Identifying Number	Awards Expended
Department of Transportation				
<i>Federal Transit Administration</i>				
Urbanized Area Formula	20.507	City of Phoenix	AZ-90-X058	\$ 623,114
Urbanized Area Formula	20.507	City of Phoenix	AZ-90-X063	327,940
Urbanized Area Formula	20.507	City of Phoenix	AZ-90-X068	2,665,897
Urbanized Area Formula	20.507	City of Phoenix	AZ-90-X070	1,076,211
Urbanized Area Formula	20.507	City of Phoenix	AZ-90-X074	533,434
START/Job Access	20.507	Maricopa County	C-22-02-137-1-02	161,579
Ajo/Phoenix Regional Transit Connector Service	20.507	Maricopa County	KR 05-0254-TRN	28,791
Ajo/Phoenix Regional Transit Connector Service	20.507	Pima County	01-04A-135849-0305	25,304
Federal Transit Technical Studies Grant	20.505	MAG	0118	224,720
Total Federal Transit Administration				<u>5,666,990</u>
<i>Federal Highway Administration</i>				
Congestion Mitigation and Air Quality Improvement Program Funds:				
Regional Ridesharing Program	20.205	MAG	0099	50,138
Regional Ridesharing Program	20.205	MAG	0099	464,839
Trip Reduction Program	20.205	Maricopa County	C-88-04-034-200	149,867
Trip Reduction Program	20.205	Maricopa County	C-88-05-023-2-00	339,329
Telework	20.205	MAG	0115	139,408
Telework	20.205	MAG	0115	245,661
Bike Education	20.205	MAG	0252	91,033
Park & Ride Environmental Analysis	20.205	MAG	0111	12,903
State Planning and Research Funds:				
Clean Air Promotional Campaign	20.205	ADOT	JPA 04-017P	42,000
Total Federal Highway Administration				<u>1,535,178</u>
Total Expenditures of Federal Awards				<u><u>\$ 7,202,168</u></u>

See accompanying notes to the Supplementary Schedule of Expenditures of Federal Awards.

Valley Metro
Regional Public Transportation Authority
Notes to the Supplementary Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2005

1. General

The Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Regional Public Transportation Authority (the "Authority"). All federal awards received are passed through the City of Phoenix, Arizona Department of Transportation, Maricopa County, Pima County and Maricopa Association of Governments. Federal financial award activities are reported in the special revenue and enterprise funds in the Authority's fund financial statements.

2. Basis of Accounting and Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards is presented using a basis of accounting that is consistent with the basic financial statements, as is described in Note 1 of the Authority's basic financial statements.

The Authority, for purposes of the Schedule of Expenditures of Federal Awards, includes all funds of the primary government as defined by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

3. Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the 2005 Catalog of Federal Domestic Assistance.

4. Pass-Through Grantors Reference

The Authority receives all federal awards as pass-through from other governmental and non-profit agencies. Abbreviations are as follows:

ADOT	Arizona Department of Transportation
MAG	Maricopa Association of Governments

5. Period of Award

There is no specified time period in which the grant award must be spent.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Regional Public Transportation Authority
Phoenix, Arizona

We have audited the basic financial statements of the Regional Public Transportation Authority (the "Authority") as of and for the year ended June 30, 2005, and have issued our report thereon dated December 19, 2005. 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.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

December 19, 2005

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

Board of Directors
Regional Public Transportation Authority
Phoenix, Arizona

Compliance

We have audited the compliance of the Regional Public Transportation Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133, *Compliance Supplement*, that are applicable to each of its major federal programs for the year ended June 30, 2005. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

December 19, 2005

REGIONAL PUBLIC TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

I. SUMMARY OF AUDITORS' RESULTS

1. Type of auditors' report issued on the financial statements: Unqualified.
2. No internal control findings required to be reported in this schedule were identified in the audit of the financial statements.
3. No instance of noncompliance considered material to the financial statements was identified in the audit of the financial statements.
4. No internal control findings required to be reported in this schedule were identified in the audit of compliance of the major federal award programs.
5. Type of auditors' report on compliance with requirements applicable to major federal award programs: Unqualified.
6. Did the audit disclose findings that are required to be reported by OMB Circular A-133: No.
7. Major programs include:

Federal Program	CFDA Number
Federal Transit Capital Improvement Grants	20.507

8. Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
9. Auditee qualified as low-risk auditee: Yes.

II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The audit disclosed no findings required to be reported.

III. FINDINGS AND QUESTIONED COSTS RELATED TO THE FEDERAL AWARDS

The audit disclosed no items required to be reported.

CORRECTIVE ACTION PLAN

Not applicable. No current-year findings or questioned costs.

STATUS OF PRIOR-YEAR FINDINGS AND QUESTIONED COSTS

Not applicable. No prior-year findings or questioned costs.



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