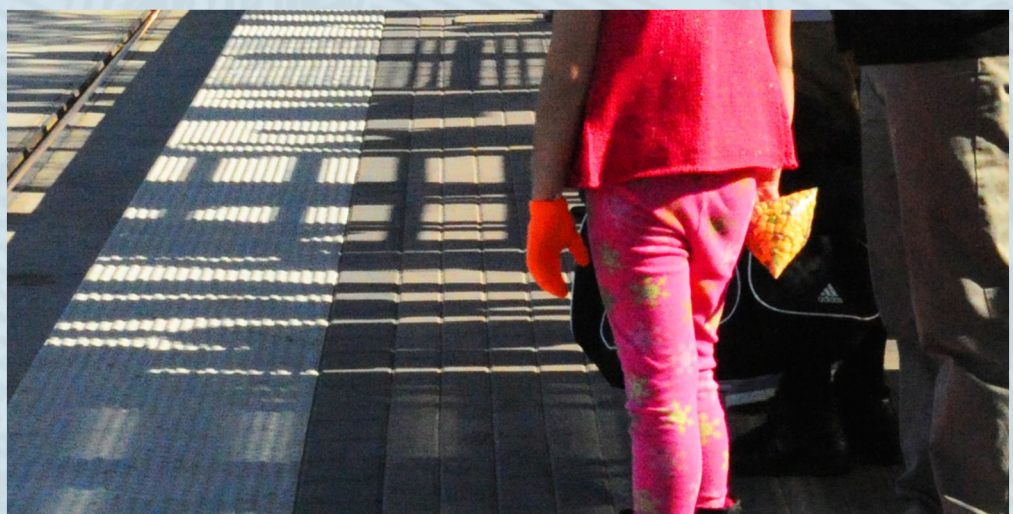
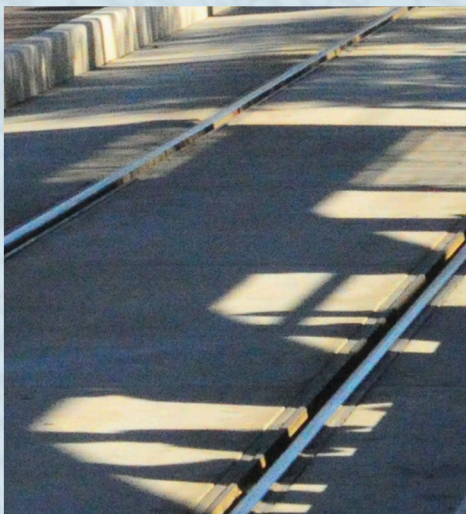
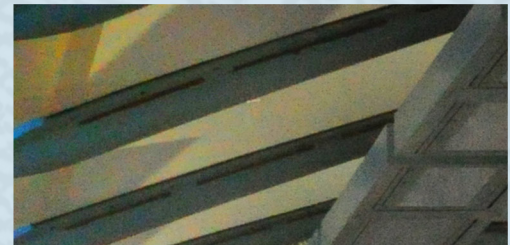


Valley Metro Rail, Inc.
Phoenix, AZ



Comprehensive Annual Financial Report

FISCAL YEAR ENDED
JUNE 30, 2014



VALLEY METRO RAIL, INC.

Phoenix, Arizona

Comprehensive Annual Financial Report

For the fiscal year ended

June 30, 2014

**Prepared by:
Finance Division**



FY14 Facts and Figures

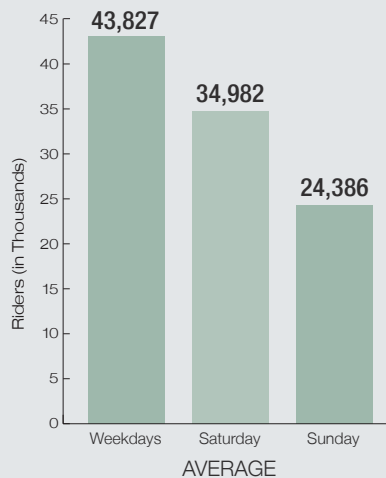


Top five busiest stations

- 19th Ave/Montebello
- Sycamore/Main St
- University Dr/Rural
- 19th Ave/Camelback
- Van Buren/Central Ave/1st Ave

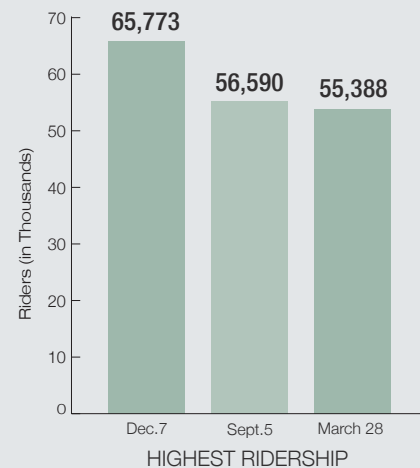
Ridership

- 14.3 million total riders
- Increase of 0.3% over 2013



Highest ridership days

- Dec. 7, 2013 – ASU football
- Sept. 5, 2013 – Backstreet Boys concert
- March 28, 2014 – Phoenix Suns game



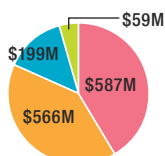
System Overview

- Number of miles: 20
- Number of stations: 28
- Number of vehicles: 50
- Number of parking spaces: 3,600
- Total travel time: 65 minutes
- Opening date: Dec. 27, 2008
- Cost to build: \$1.4 billion
- Cost to operate: \$31.2 million in FY14
- Cost to ride: \$2.00 per ride;
\$4.00 for all day

Valley Metro Rail, Inc. is responsible for the development and operation of the region's high-capacity transit system. The 20-mile light rail starter line opened December 2008 and served 14.3 million riders in fiscal year 2014 exceeding the prior year by 0.3 percent. The system has well-exceeded all system projections.

Design and Construction

Valley Metro's 20-mile light rail line is the longest starter line in federal New Starts grant history. It was built entirely in-street using a train-only trackway and traffic signals to allow trains to safely move through the cities of Phoenix, Tempe and Mesa, Arizona. The cost was \$1.4 billion using a variety of local, regional and federal funding sources.



- \$587 million federal New Starts grant
- \$566 million from the cities of Phoenix, Tempe and Mesa
- \$199 million from the county-wide Proposition 400 sales tax
- \$59 million from federal Congestion Mitigation and Air Quality funding

There are 28 stations, primarily located in the center of the roadway and designed with significant consideration given to the desert heat. Artwork is an integral part of the system and incorporated into each station.

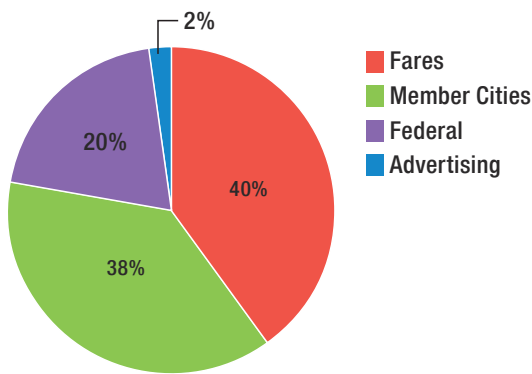
Nine park-and-rides feed the system where free parking can be enjoyed by riders. The more than 3,600 spaces are available on a first-come, first-serve basis and, like the rest of the system, monitored using security cameras.

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



Operations

Valley Metro Rail operates 365 days a year, 20+ hours a day, with a 12-minute peak frequency. The cost of operations is largely supported by rail members cities and passenger fares.



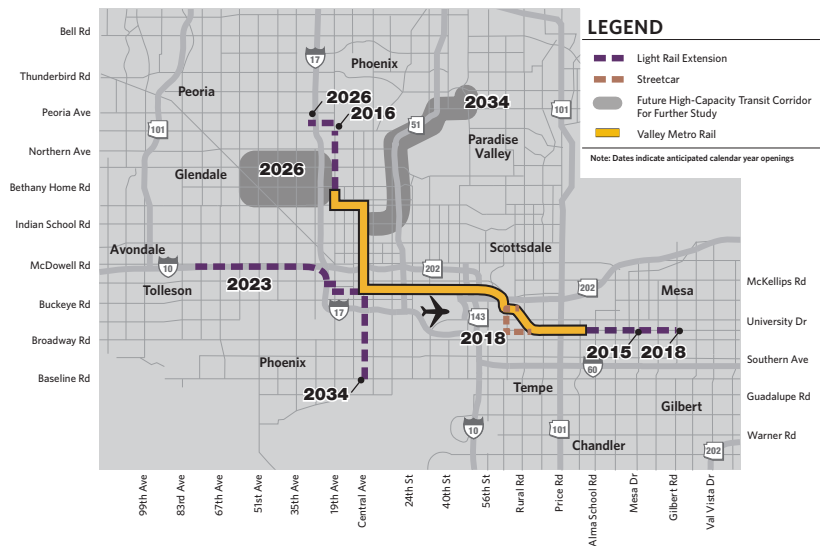
Light rail service is coordinated with bus service to provide a seamless network for customers. An All-Day pass or greater is good for both rail and bus. Passes can be purchased at fare vending machines located at each station, online or from retail outlets Valleywide. Security officers regularly patrol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



For many, the light rail system provides connection to work, school and entertainment. There are many sports, shopping, restaurants and arts and culture destinations. Light rail also connects to Phoenix Sky Harbor International Airport with PHX Sky Train® at the 44th St/Washington light rail station.

Future Expansion

Valley Metro is responsible for building a 60-mile, high-capacity transit system as defined in the Regional Transportation Plan by 2034. Planning, design and/or construction has begun on the seven extensions that make up the remainder of the 40 miles; a study to determine funding for the South Central Phoenix corridor is underway. Two extensions are currently under construction and scheduled to open in late 2015 and early 2016: Central Mesa and Northwest Phoenix.





Valley Metro Rail, Inc.

Table of Contents

Comprehensive Annual Financial Report

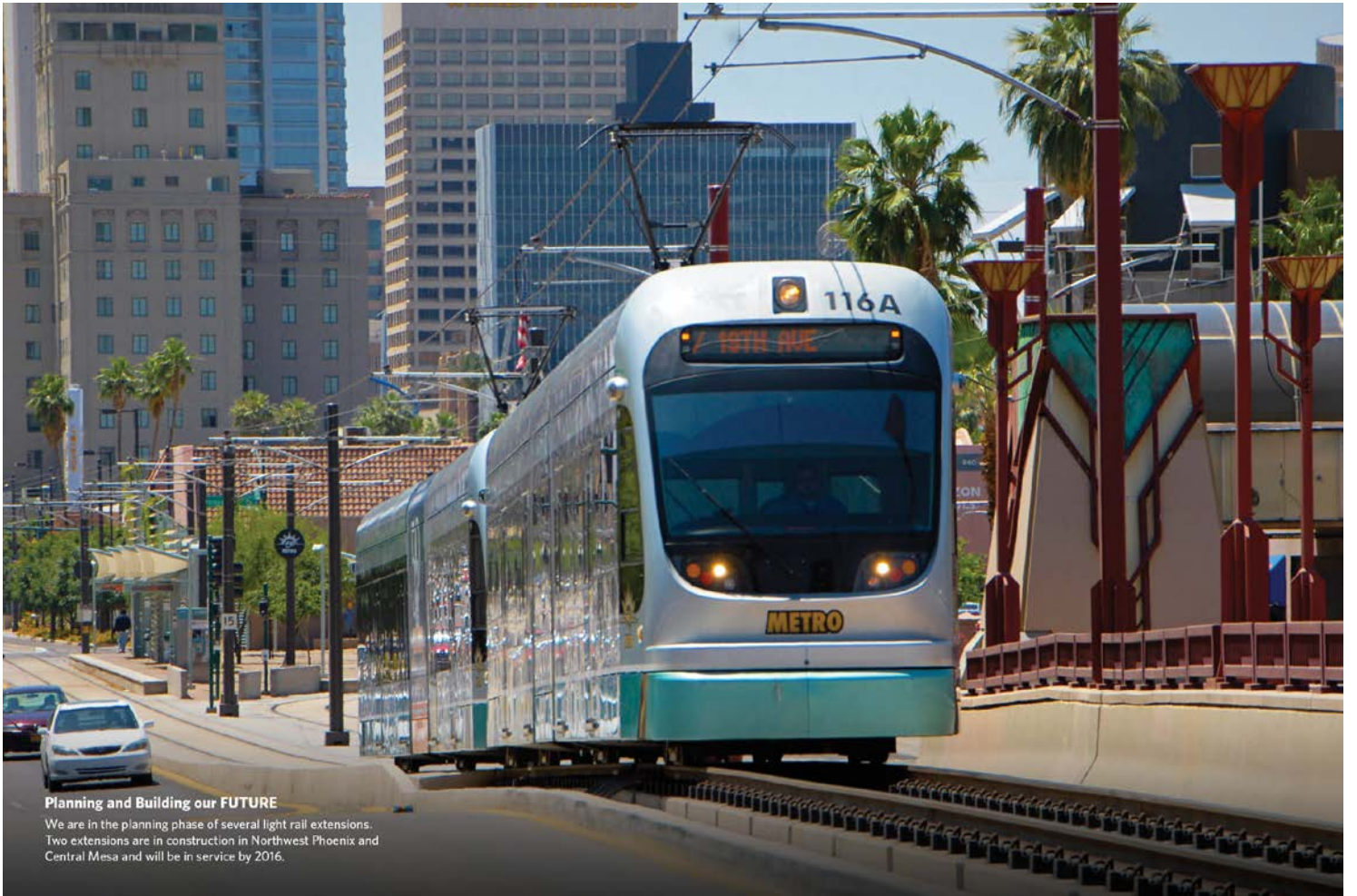
Fiscal Year Ended June 30, 2014

	<u>Page</u>
<u>Introductory Section</u>	
Letter of Transmittal	iii
Certificate of Achievement for Excellence in Financial Reporting	x
Policy Organizational Chart	xi
List of Appointed Officials	xii
<u>Financial Section</u>	
Independent Auditor's Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements	
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Fund Net Position	11
Statement of Cash Flows	12
Notes to the Financial Statements	13
<u>Other Supplementary Information</u>	
Schedule of Operations - Budget and Actual	28
<u>Statistical Section</u>	
Financial Trends	
Net Position by Component	32
Changes in Net Position	33
Demographic and Economic Information	
Growth in Regional Transit Usage	34
Population Growth	35
Top Employers in Maricopa County	36
Project Report – Central Mesa	37
Project Report – Northwest Extension	38
Project Report - Tempe Streetcar	39
Project Report – Gilbert Road	40
Project Report – Capitol / I-10 West	41
Operating Information	
Full-Time Equivalent Positions	42
Schedule of Insurance Coverage	45
Design & Construction Milestones	47



INTRODUCTORY SECTION

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



Planning and Building our FUTURE

We are in the planning phase of several light rail extensions. Two extensions are in construction in Northwest Phoenix and Central Mesa and will be in service by 2016.



101 North 1st Avenue
Suite 1300
Phoenix, AZ 85003

November 25, 2014

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

The comprehensive annual financial report of Valley Metro Rail, Inc. (METRO) for the fiscal year ended June 30, 2014, is hereby submitted in accordance with the requirements of the Bylaws and Board directives. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position, results of operations and cash flows of METRO. All disclosures necessary to enable the reader to gain an understanding of METRO's activities have been included.

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

The independent auditors, Heinfeld, Meech & Co., P.C., whose report is included herein, have examined the basic financial statements and related notes. As stated in the independent auditor's report, the goal of the independent audit was to provide reasonable assurance that the basic financial statements of METRO as of and for the fiscal year ended June 30, 2014, are free from material misstatement. The independent audit involved examining, on a test basis; evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon their audit, that there was a reasonable basis for rendering an unmodified opinion that the basic financial statements of METRO for the fiscal year ended June 30, 2014, are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Additionally, METRO is required to have an independent audit of expenditures of federal awards received (Single Audit) by METRO directly from federal agencies, or passed through to METRO by other governmental entities during the fiscal year. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on METRO's internal controls and compliance with legal requirements having a direct and material impact on major programs, with special emphasis on internal controls and compliance requirements involving the administration of major federal awards. The results of METRO's Single Audit for the fiscal year ended June 30, 2014, found no instances of material weakness in the internal control structure or significant violations of applicable laws and regulations with respect to major programs. The auditor's reports on internal controls and compliance with applicable laws and regulations are included in a separately issued Single Audit Report.

The financial statements are prepared and presented in conformity with accounting principles generally accepted in the United States of America. More information about the presentation can be found in Management's Discussion and Analysis (MD&A) beginning on page 3 and also discussed in the notes to the financial statements beginning on page 13. This transmittal letter is designed to complement MD&A and should be read in conjunction with it.

THE FINANCIAL REPORTING ENTITY

METRO was established in October 2002 as a public nonprofit corporation formed by the cities of Glendale, Mesa, Phoenix, and Tempe to manage design, construction, and operation of the Light Rail Transit (LRT) System within the Metropolitan Area. The cities of Chandler and Peoria became contributing member cities in 2007. The City of Scottsdale joined in April of 2008 and withdrew membership effective July 1, 2009. Subsequent to the close of fiscal year 2010-2011, the City of Peoria withdrew membership effective July 1, 2011.

During the fiscal year 2013-2014, a five member Board of Directors governed METRO, consisting of the mayors or their designated representatives from each member city. The Board of Directors establishes overall policies for management and administration of the LRT System, provides oversight over the design, construction and operation of light rail, and receives and disburses funds and grants from federal, state, local, and other funding sources. A Chief Executive Officer, appointed by the Board of Directors, is responsible for the day-to-day management of the organization.

In February 2012, the Boards of Directors of METRO and the Regional Public Transportation Authority (RPTA) took action to appoint Mr. Stephen R. Banta as the Chief Executive Officer to manage the two financial entities under a single integrated agency. RPTA and METRO entered into an intergovernmental agreement providing for the single CEO to serve both organizations effective March 1, 2012 with the preservation of both RPTA and METRO Boards of Directors.

LOCAL ECONOMIC CONDITION AND OUTLOOK

METRO serves the cities of Chandler, Glendale, Mesa, Phoenix, and Tempe that are centrally located in Maricopa County, Arizona. These cities have constituted a well-established growth area since 1945, and collectively encompass approximately 1,000 square miles. Together they form a significant portion of the greater metropolitan Phoenix area, which is the economic, political, and population center of Arizona.

The combined five cities have grown from 2.493 million residents in the year 2003 to 2.579 million residents in 2012, an increase of approximately 3.44% in the last ten years. The five cities' population represents over 65% of the total Maricopa County population. According to the Greater Phoenix Economic Council, population in the region is projected to grow at more than twice the national rate for the next few decades, growing from 4.0 million in 2008 to 6.3 million in 2030.

In 2007 and 2008, the region's historically strong economic growth slowed and sales tax revenues fell with the nation-wide recession. In fiscal years 2009 and 2010 regional revenues fell 13.7% and 8.9% respectively. METRO responded to the times with staff reductions in 2009 and with service reductions in 2010. In fiscal years 2011, 2012, 2013 and 2014 regional revenues have rebounded, growing by 3.4%, 4.3%, 5.5% and 7.0% respectively. While the economic recovery in the region is not complete, the outlook is bright for maintaining and expanding the 20 mile light rail system.

Despite the 2009 downturn, growth of public transportation continues to be strong. Over the last ten years, while population has grown by less than 4% in the region, public transportation ridership has grown by 28%. With the commencement of rail passenger operations in December 2008, the LRT System added new capacity to the regional transportation system. Since opening, the METRO light rail line has experienced strong passenger growth with average weekday ridership reaching 43,827 passengers in fiscal year 2014 up from 33,440 riders per day in fiscal year 2009.

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

FINANCIAL CONTROLS

Accounting and Administrative Controls

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

As a sub-recipient of federal financial assistance, METRO is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management and by METRO's independent auditor. As part of METRO's Single Audit, tests were made of the internal control structure and of its compliance with applicable laws and regulations, including those related to federal awards. Although this testing is limited in scope and is not sufficient to support an opinion on METRO's internal control system or its compliance with laws and regulations, the audit for the year ended June 30, 2014, disclosed no material internal control weaknesses or material violations of laws and regulations. The audit of METRO's compliance with requirements applicable to each major program and internal control over compliance resulted in an unmodified opinion of compliance and noted no material weaknesses in internal controls.

Budgetary Systems and Controls

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

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

For each major capital construction project, METRO regularly reports the project budget status to the Board showing by project element the budget amount versus actual expenditures, and

forecasted cost at completion. METRO evaluates project contractual costs and estimates the cost at completion as part of the regular project reporting process. Should anticipated contractual costs appear to exceed the Board approved project budget, METRO staff will seek Board action to adjust project scope or approve additional funding. During construction, significant issues are addressed in narrative reports included in the project progress report submitted to the Board on a quarterly basis.

With the commencement of passenger operations in December 2008, METRO has continued to refine detailed cost estimates for manpower, contracted costs, utilities and insurance to construct the annual operations budget. Analysis and comparisons of METRO’s planned costs to peer city light rail systems have been conducted. Actual costs are tracked against budget and reported to Member Cities on a monthly basis with significant variances analyzed and communicated. Member Cities fund the cost of the operations based upon the ratio of route miles in operation within each jurisdiction. In the first sixty-six (66) months of operations, METRO has successfully operated within budget while achieving on-time and reliability performance targets.

With respect to fare revenues, METRO has engaged an armored car service contractor to pick up fare payments deposited by customers in the fare vending machines. The armored car service deposits daily collections into the City of Phoenix regional fare revenue depository. METRO works in collaboration with the City of Phoenix to compute and distribute fare revenues to the Member Cities. Over the first sixty-six months of operations, METRO’s fare revenues have exceeded budget and actual costs have come in under budget. METRO’s fare recovery ratio exceeded 40.0% in fiscal year 2014 comparing favorably with peer agencies located in the western United States. (See below table)

Light Rail Systems

2012 NTD	Dallas	Denver	Houston	Sacramento	Salt Lake City	San Diego	Peer Average	Valley Metro Rail FY14
Fare Recovery	13%	42%	23%	32%	40%	56%	31%	40%

*Fare recovery ratio is a primary measure of system financial productivity as monitored by the Federal Transit Administration. The National Transit Database (NTD) definition of fare recovery is total fare revenues collected divided by total operating cost. Fare recoveries are strongest where passenger boardings and fares collected are highest and operating costs are lowest.

MAJOR INITIATIVES

Design and Construction of Light Rail and Modern Streetcar

In addition to the successful construction of the 20 mile Central Phoenix/East Valley Light Rail Transit (CP/EV LRT) Project, METRO is advancing design and construction of new rail extensions. The Northwest Phase 1 Light Rail Extension, the first planned LRT extension adding 3.2 miles along 19th Avenue to Dunlap Avenue in Phoenix, is now on track for completion in 2016. With the economic recovery and a revitalized funding plan, design and real estate acquisition activities have progressed to over 92% complete. Construction commenced in January 2013 and has progressed to over 48% complete as of September 30, 2014. The Central Mesa Light Rail Extension, adding an additional 3.1 miles eastward along Main Street to Mesa Drive is scheduled for completion in 2015. Design and real estate acquisition has progressed to over 90% complete. Construction commenced in July of 2012 and has progressed to over 55% complete. The 1.9 mile Gilbert Road Light Rail Extension will extend the alignment eastward along Main Street to Gilbert Road with anticipated completion in 2018. The City of Mesa and Maricopa Association of Governments have approved the alignment and funding program to enable the project to move

forward. Federal environmental approval was received in November 2013 and design and construction are expected to commence in 2015. In Tempe, a 3.0 mile modern streetcar alignment has undergone changes to improve federal funding status. The Tempe Streetcar project is tentatively scheduled to commence design and construction for a line opening in 2018. In Phoenix, planning for the 11 mile Capitol/I-10 West Light Rail Extension along the Interstate 10 corridor is complete, with the City of Phoenix Council selecting the locally preferred alternative route in May of 2012. (See pages 37-41 for project information)

20 Mile Initial Operating Segment Central Phoenix/East Valley Light Rail Transit (CP/EV LRT) Project

The CP/EV LRT project is a 19.6 mile LRT System that connects north central Phoenix, Tempe, and Mesa. As the initial starter segment, the CP/EV LRT project extends from 19th Avenue and Bethany Home Road in Phoenix to Main and Sycamore Road in Mesa. Phoenix, Tempe, and Mesa share responsibility for funding the non-federal share of capital costs and the on-going operations and maintenance (O&M) costs of the project. The CP/EV LRT project complements existing and proposed bus services to be implemented by Phoenix, Tempe, and Mesa. Construction of the project began in FY 2005 and was completed on-time with passenger revenue operations commencing January 1, 2009. Service commences daily at 5AM and operates to 11PM, with extended hours on Friday and Saturday to 2AM. Weekday riders have access to trains every 12 minutes from 7AM to 7PM. Weekend and off-peak weekday service frequencies range from 15 to 20 minutes.

Northwest Extension LRT Project

The Northwest Extension is a 4.6 mile light rail project starting at the northwest termination point of the Central Phoenix/East Valley Light Rail project. The project follows 19th Avenue to Dunlap Avenue, then west on Dunlap Avenue to 25th Avenue and then runs on 25th Avenue to Mountain View Road. In March 2007 the Phoenix City Council approved an initial 3.2 mile phase to be locally funded, without federal funding support. In 2009, with the economic downturn, construction of the first phase, which includes the 19th Avenue to Dunlap portion of the project, was suspended based upon availability of funding. From 2009 through mid-2012, real estate was acquired, private utility lines were relocated and neighborhood mitigation improvements were made to prepare for light rail construction.

In July of 2012, the Regional Council of the Maricopa Association of Governments (MAG) approved the 2012 Transit Life Cycle Plan Update which allocates monies from the Public Transportation Fund (PTF) for the Northwest Extension Project. On June 20, 2012, the Phoenix City Council approved \$60,000,000 from transit sales tax funds to accelerate the project construction, with repayment from the PTF to come in 2017. These funding actions have enabled the project to complete design work and commence construction for the 3.2 mile first phase.

The extension is planned to open in 2016 with ridership estimated at approximately 4,000 riders per day. The total capital cost of the project is \$326.6 million to be funded with a combination of City of Phoenix and Public Transportation Funds.

Central Mesa Light Rail Extension Project

In March, 2010, the Mesa City Council approved a 3.1 mile extension of the LRT system and in August 2010, the Federal Transit Administration (FTA) approved the alignment for project development. In September 2012, the FTA completed review of the \$75.0 million Section 5309

Small Start application and submitted the grant to Congress for final approval. The extension begins at the eastern limits of METRO's existing light rail system (Sycamore) and extends east on Main Street to Mesa Drive. The entire extension is within the City of Mesa. There are four stations on Main Street including a station at Alma School Road, Country Club Drive, Center Street, and Mesa Drive.

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

Funding Milestones

On November 2, 2004, the voters of Maricopa County approved Proposition 400, the continuation of the transportation tax, for a twenty year period, beginning in calendar year 2006. A major milestone in transportation funding and service in the region, the proposition had unanimous support from the mayors of all of the cities in the region and the Maricopa County Board of Supervisors, the Maricopa Association of Governments Regional Council, and the Arizona Department of Transportation. This initiative is forecasted to generate \$1.3 billion (in year of expenditure dollars) in revenue over the 20 year period to fund construction of an additional 24 miles of light rail extension and 3.0 miles of modern streetcar.

In March 2006, METRO began to receive funds from the Public Transportation Fund. Initial funds were used for the relocation of non-prior rights utilities impacted by LRT construction. In August 2006, the Regional Public Transportation Authority (RPTA) and METRO executed the LRT Program Agreement. Under the agreement, RPTA designates METRO as the Lead Agency to plan, design, and construct the LRT program as defined by the Maricopa Association of Governments Regional Transportation Plan. As of June 30, 2014, \$416.0 million of Public Transportation Funds have been received to fund METRO rail programs.

In December 2007, the Phoenix City Council approved \$34.7 million to fund pre-construction activities for the Northwest Extension. In July 2009, in response to reductions in sales tax revenues, the Council took action to phase construction activities pending availability of funds. In June 2012, the Council took action to advance \$60.0 million to restart and accelerate construction of the 3.2 mile Northwest Extension Phase I Project.

In June 2009, the Regional Public Transportation Authority (RPTA) issued Transportation Excise Tax Revenue Bonds in the amount of \$100,075,000. Approximately \$55.0 million of the 2009 series bond proceeds reimbursed and paid LRT capital expenditures as designated in the Regional Transportation Plan. In January 2014, the RPTA issued a second series of bonds to fund LRT capital expenditures. The 2014 series bonds totaled \$115,000,000 par value were sold at a premium to generate approximately \$134.0 million in proceeds for the Central Mesa and Northwest Phase I LRT extensions.

In December 2009, METRO submitted application with the FTA to enter Project Development for the Central Mesa LRT Extension. In August of 2010 FTA approved the project to move forward into design under the Sec 5309 Small Starts program. In August of 2011, the FTA approved the project environmental submittal enabling right of way acquisition and utility relocation eligible for federal funding. In October of 2012, the FTA awarded a \$75.0 million Project Construction Grant Agreement for the Central Mesa Extension.

In October 2012 the Maricopa Association of Governments (MAG) Regional Council approved a policy regarding the repurposing of federal Surface Transportation Program (STP) funds from the Arterial Life Cycle Program to fund the 1.9-mile Gilbert Road LRT Extension (GRE) located on Main Street from Mesa Drive to Gilbert Road in Mesa. This MAG action also initiated the major amendment process to add the project to the MAG Regional Transportation Plan (RTP). In March 2013, the MAG Regional Council approved this amendment to the RTP and added the project to the Transportation Improvement Program (TIP). In November 2013, the FTA issued the Finding of No Significant Impact for the GRE project completing the federal Environmental Assessment.

OTHER INFORMATION

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Metro Rail, Inc. for its comprehensive annual financial report for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments

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

Respectfully submitted,



Stephen R. Banta
Chief Executive Officer



John P. McCormack
Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Valley Metro Rail, Inc.
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

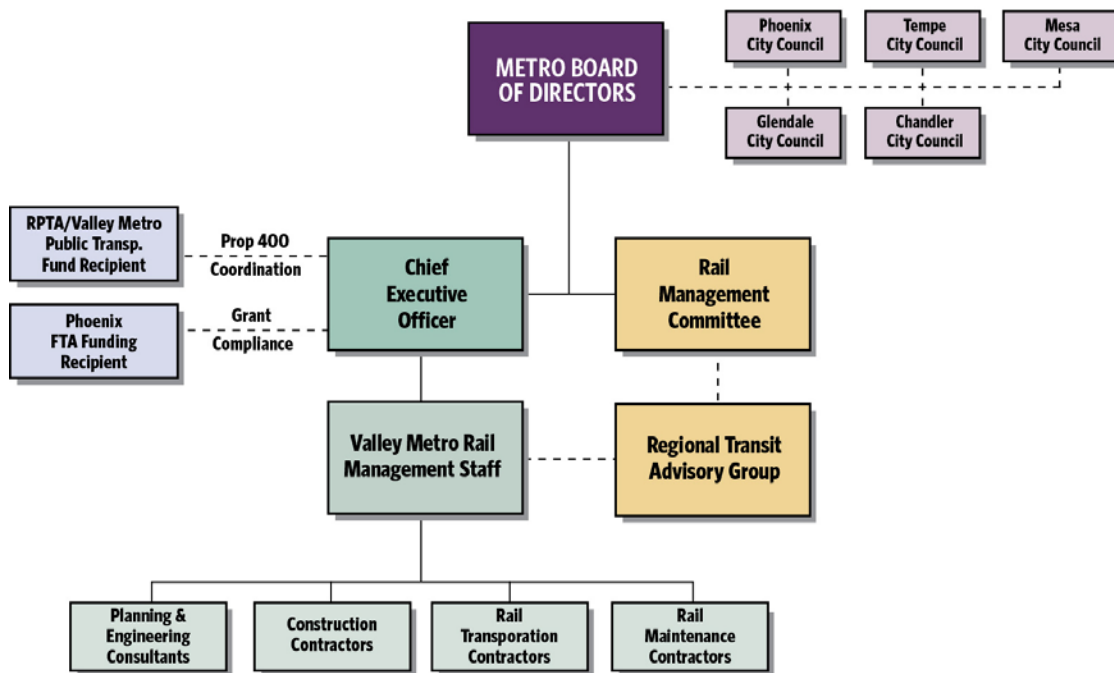
Executive Director/CEO

LIGHT RAIL System

In operation since 2008, our 20-mile light rail system travels across Phoenix, Tempe and Mesa, and transports 44,000 riders each weekday.



**VALLEY METRO RAIL, INC.
Policy Organizational Chart
Fiscal Year Ended June 30, 2014**



VALLEY METRO RAIL, INC.
List of Appointed Officials
Fiscal Year Ended June 30, 2014

Board of Directors

Board Chairman
Vice Chairman
Board Member
Board Member
Board Member

Councilmember Shanna Ellis, Tempe
Councilmember Dennis Kavanaugh, Mesa
Vice Mayor Rick Heumann, Chandler
Councilmember Gary Sherwood, Glendale
Councilmember Thelda Williams, Phoenix

Executive Management Team

Chief Executive Officer
Chief of Staff
Chief Operations Officer
Director, Design and Construction
Director, Communication & Marketing
Director, Planning & Development
Director of Administration & Organizational Development
General Counsel
Chief Financial Officer
Chief, Safety & Security

Stephen R. Banta
Jyme Sue McLaren
Raymond Abraham
Rick Brown
Hillary Foose
Wulf Grote
Carol Ketcherside
Mike Ladino
John McCormack
Gardner Tabon



FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Valley Metro Rail, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Valley Metro Rail, Inc. (METRO), as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Valley Metro Rail, Inc., as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, the METRO implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2014, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the METRO's financial statements. The Introductory Section, Schedule of Operations – Budget and Actual, listed as Other Supplementary Information in the table of contents, and Statistical Section are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedule of Operations – Budget and Actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operations – Budget and Actual is fairly stated in all material respects in relation to the financial statements as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of Valley Metro Rail, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valley Metro Rail, Inc.'s internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

November 25, 2014

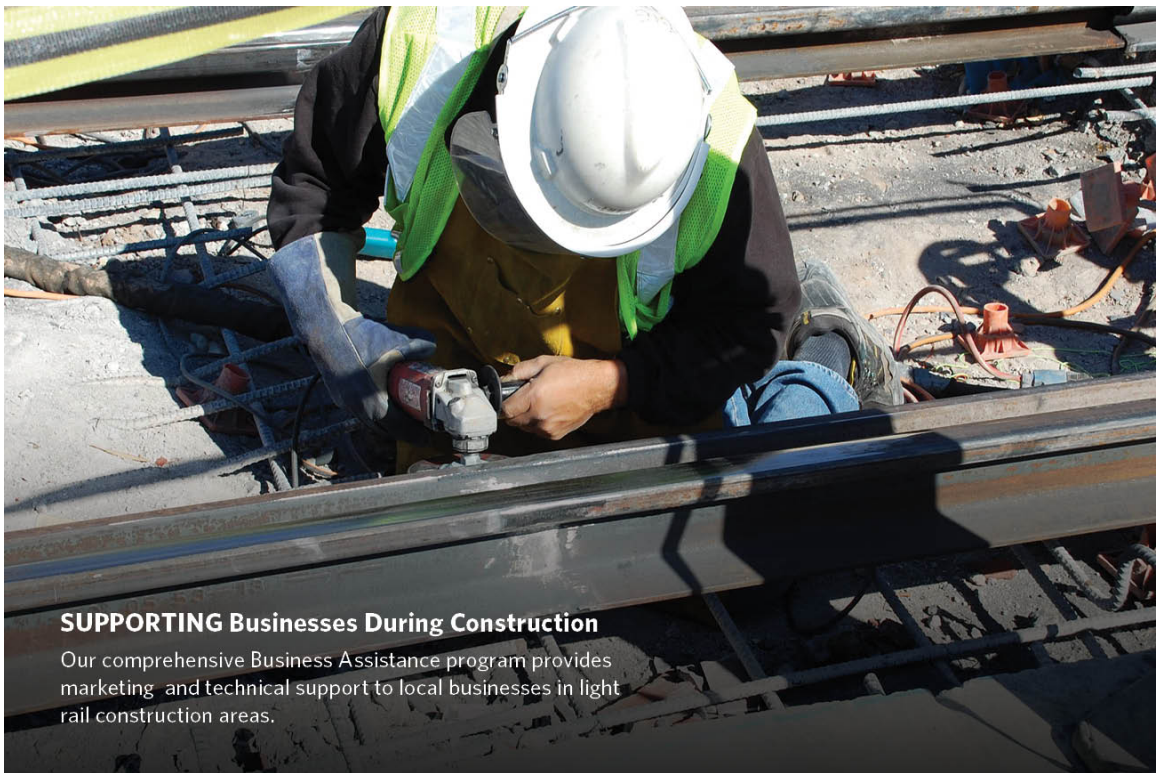


TOTAL Transit Network

Our vision for a multi-modal, regional transit network will provide commuters with options to reach their destinations.

SERVING our Communities

We partner with our member cities to enhance the quality of life for all Valley residents through regional development, community outreach and transit service enhancements.



SUPPORTING Businesses During Construction

Our comprehensive Business Assistance program provides marketing and technical support to local businesses in light rail construction areas.

As management of Valley Metro Rail, Inc. (METRO), we offer this narrative overview and analysis of the financial activities of METRO for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii – ix of this report. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of METRO's financial activity, (3) identify changes in METRO's financial position, (4) identify any material deviations from the financial plan (adopted annual budget), and (5) identify other issues or concerns.

Financial Highlights

- METRO's total net position increased \$48.9 million in FY 2014. The increase was caused by new capital investments which exceeded scheduled depreciation charges. Total net position for METRO was \$1.194 billion at June 30, 2014.
- METRO's operating revenues for FY 2014 were \$33.4 million compared to \$31.0 million for the prior period. Operating revenues consisted of contributions from METRO member cities (\$16.8 million), passenger fares (\$12.5 million), FTA operating grants (\$2.4 million) and other revenues (\$1.7 million). Passenger operating costs increased by \$2.5 million and federal grant funding decreased by \$3.0 million. The combination of cost increases and reductions of federal grant funding are the primary causes of increased contributions from Member Cities of \$5.2 million.
- Capital contributions totaled \$113.8 million consisting of Public Transportation Funds of \$86.2 million and Federal Transit Administration Capital Grants totaling \$27.6 million. In addition, the City of Phoenix provided an advance capital loan for \$22.1 million for the Northwest Extension capital project. Construction in progress for capital projects includes \$41.4 million for the Central Mesa LRT extension and \$44.1 million for the Northwest LRT extension. In addition, the capital funds provided for a \$26.8 million capital lease payment for 14 light rail vehicles and for conveyance of \$9.9 million in real estate to member cities.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

compliance with finance-related legal requirements as well as for managerial control to demonstrate fiduciary responsibility over the assets of METRO.

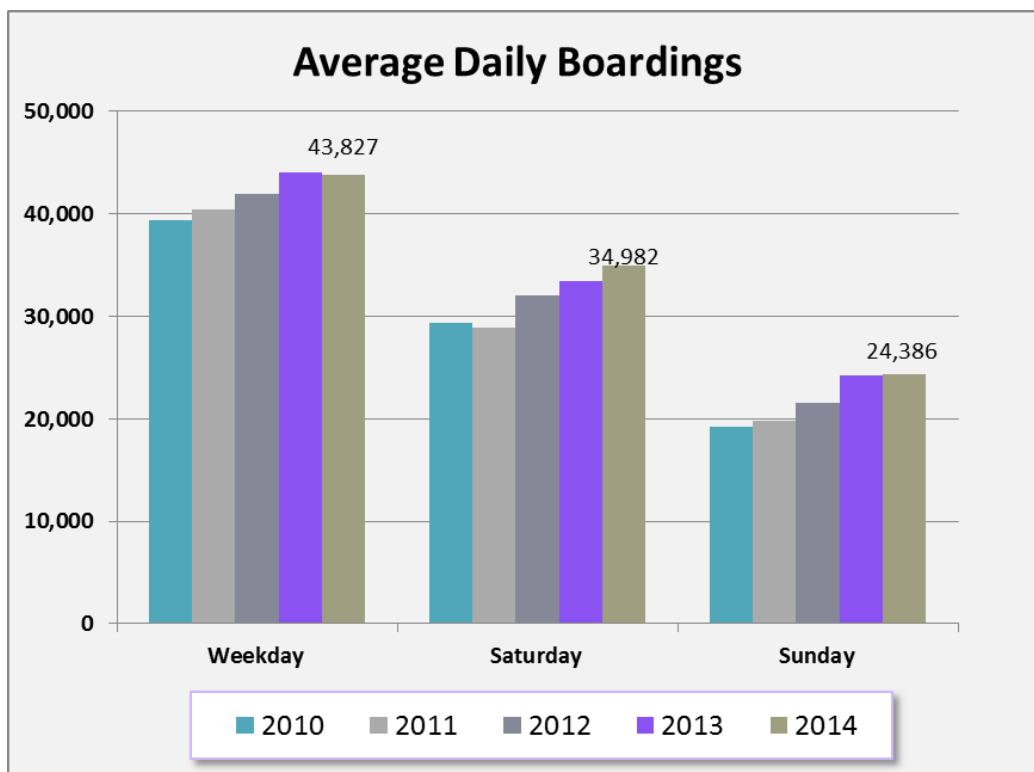
The statement of net position presents information on all of METRO's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of METRO is improving or deteriorating.

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

Notes to the Financial Statements – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and should be read with the financial statements. The notes can be found beginning on page 13.

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

Light Rail Ridership Comparison 2010 / 2011 / 2012 / 2013/ 2014



FINANCIAL ANALYSIS OF METRO

The following tables and analysis discuss the financial position and changes to the financial position for METRO as a whole as of and for the year ended June 30, 2014, with comparative information for the previous period.

Net Position – Net position may serve over time as a useful indicator of METRO's financial position. The following table reflects the condensed Statement of Net Position as of June 30, 2014, compared to the prior period.

**VMR's Condensed Statement of Net Position
As of June 30, 2014 and 2013**

	2014	2013	Change	Percent Change
Current assets	\$ 71,151,756	\$ 77,300,100	\$ (6,148,344)	-8.0%
Noncurrent assets	1,241,649,049	1,193,125,907	48,523,142	4.1%
Total assets	1,312,800,805	1,270,426,007	42,374,798	3.3%
Current Liabilities	57,604,636	73,323,565	(15,718,929)	-21.4%
Noncurrent Liabilities	60,893,586	51,678,875	9,214,711	17.8%
Total liabilities	118,498,222	125,002,440	(6,504,218)	-5.2%
Net Investment in Capital Assets	1,181,649,049	1,143,025,388	38,623,661	3.4%
Unrestricted	12,653,534	2,398,179	10,255,355	427.6%
Total Net Position	\$ 1,194,302,583	\$ 1,145,423,567	\$ 48,879,016	4.3%

Total net position represents the sum of METRO's unrestricted net position plus net investment in capital assets. The largest portions of the investment are capital assets for the Central Phoenix/East Valley Light Rail Transit Project (CP/EV LRT). In December 2008, METRO placed these capital assets into service for operation of the light rail transit system and in day-to-day operations of METRO. It is not METRO's intention to sell these assets and they are therefore not available for future spending. Net position increased \$48.9 million largely due to the addition of the construction in progress for the Central Mesa Extension and the Northwest Extension capital projects. Funding sources for the new investments include Federal grants and Public Transportation Funds.

CHANGES IN NET POSITION

Total operating revenues, which consist of Contributions from Member Cities, Passenger Fares, FTA grants, and Other Revenues (advertising and MAG planning funds), increased by \$2.4 million. Member City contributions increased \$5.2 million and were primarily impacted by increases in passenger operations service costs and reductions in federal operating grants.

Operating expenses increased by \$3.0 million to \$79.0 million: Administrative expenditures increased from \$8.3 to \$8.8 million. Passenger Operations Service expenses were up by \$2.5 million from \$28.712 to \$31.260 million. As the system has now reached 5 years of age, increased preventive maintenance costs are the primary cause for the increase. Depreciation expense was \$38.9 million, slightly down from \$39.0 million in the prior year.

Non-Operating expenses: This year's non-operating revenue and expense activities report a net (\$19.4) million decrease in net position. The decrease includes private utility relocation expense (\$14.9 million) capital conveyance of real estate to member cities (\$9.9 million), and interest on capital funding obligations (\$1.6 million). The expenses were offset by Regional Public Transportation Funds revenue of \$6.6 million.

Capital contributions totaling \$113.8 million consist of FTA capital grants \$27.6 million and Public Transportation Funds \$86.2 million. Capital projects funded include the Central Mesa and Northwest Extension construction projects. The \$54.0 million increase over prior year capital contributions were primarily related to a \$58.4 million increase in PTF contributions for capital projects offset by a (\$4.2) million decrease in Member City Capital Contributions.

The following table compares the revenues and expenses of METRO for the current fiscal year and the previous period.

VMR's Changes in Net Position
Fiscal year ended June 30, 2014 and 2013

	2014	2013	Change	Percent Change
Operating revenues:				
Contributions from Member Cities	\$ 16,803,600	\$ 11,614,615	\$ 5,188,985	44.7%
Passenger Fares	12,505,116	12,791,801	(286,685)	-2.2%
FTA Operating Grants	2,400,132	5,382,997	(2,982,865)	-55.4%
Other Revenues	1,730,566	1,252,967	477,599	38.1%
Operating revenues	<u>33,439,414</u>	<u>31,042,380</u>	<u>2,397,034</u>	<u>7.7%</u>
Operating expenses:				
Administrative	8,840,445	8,287,393	553,052	6.7%
Passenger Operations Service	31,260,365	28,711,628	2,548,737	8.9%
Depreciation	38,911,674	38,978,409	(66,735)	-0.2%
Operating expenses	<u>79,012,484</u>	<u>75,977,430</u>	<u>3,035,054</u>	<u>4.0%</u>
Operating income (loss)	(45,573,070)	(44,935,050)	(638,020)	1.4%
Non-operating revenues (expense)	<u>(19,372,892)</u>	<u>(8,283,802)</u>	<u>(11,089,090)</u>	<u>133.9%</u>
Deficiency before Capital Contributions	(64,945,961)	(53,218,852)	(11,727,109)	22.0%
Capital Contributions	113,824,977	59,775,988	54,048,989	90.4%
Increase (Decrease) in Net Position	48,879,016	6,557,136	42,321,880	645.4%
Net Position, July 1	<u>1,145,423,567</u>	<u>1,138,866,431</u>	<u>6,557,136</u>	<u>0.6%</u>
Net Position, June 30	<u>\$ 1,194,302,583</u>	<u>\$ 1,145,423,567</u>	<u>\$ 48,879,016</u>	<u>4.3%</u>

CAPITAL ASSETS AND LONG TERM DEBT

Capital Assets:

The following table provides a breakdown of capital assets of METRO at June 30, 2014, with comparative information for the previous period. Additional information on METRO's capital assets may be found in Note 5.

**VMR's Capital Assets, Net of Depreciation
As of June 30, 2014 and 2013**

	2014	2013	Change	Percent Change
Buildings	\$ 84,794,636	\$ 87,357,938	\$ (2,563,302)	-2.9%
Guideway	503,336,746	514,647,312	(11,310,566)	-2.2%
Bridges	50,238,383	52,288,930	(2,050,547)	-3.9%
Operation Control Center	10,903,077	11,339,858	(436,781)	-3.9%
Passenger Stations and Facilities	83,259,135	86,657,467	(3,398,332)	-3.9%
Park and Ride Facilities	25,906,761	28,574,490	(2,667,729)	-9.3%
Electric Power Substations	69,210,351	72,759,869	(3,549,518)	-4.9%
Signal and Communication System	35,164,511	37,590,235	(2,425,724)	-6.5%
Computers and Software	130,578	168,000	(37,422)	-22.3%
Revenue Vehicles	170,655,251	179,490,100	(8,834,849)	-4.9%
Non-Revenue Vehicles	823,683	813,139	10,544	1.3%
Site Improvements	11,329	12,611	(1,282)	-10.2%
Equipment	5,969,319	7,137,540	(1,168,221)	-16.4%
Construction in Progress	201,245,289	114,288,418	86,956,871	76.1%
Net Capital Assets	\$ 1,241,649,049	\$ 1,193,125,907	\$ 48,523,142	-13.8%

As of June 30, 2014, METRO had \$1,242 million in capital assets, net of accumulated depreciation. There was a net increase in capital assets, of \$48.5 million from June 30, 2013; primarily resulting from an increase to construction in progress of \$87.0 million primarily for the Central Mesa \$41.4 million and Northwest Extension \$44.1 million LRT Projects. New construction increases were offset by the annual depreciation charge of \$38.9 million for the Light Rail System infrastructure. Refer to Note 5 on page 19 for more information regarding the capital assets.

Long Term Debt:

During fiscal year 2009, METRO (as Lessee) completed the process of formally accepting 14 Light Rail Vehicles (LRV's) under the terms of a Master Lease/Purchase Financing Agreement dated March 3, 2006, with the City of Phoenix (as Lessor). Under the agreement, the City financed the purchase of the vehicles with the payments due from METRO commencing in 2011. In June of 2014, METRO made the final \$12,186,000 of remaining principal and \$14,566,504 final accrued interest payment for a total of \$26,752,504. Refer to Note 8 on page 20 for more information regarding the capital lease, which is now paid in full.

METRO signed the Project Funding Agreement (Northwest Light Rail Extension) with the City of Phoenix on December 20, 2012. The agreement provides \$60 million during fiscal years 2013 and 2014 to fund the expenses of the Northwest Light Rail Extension capital project. These funds will be repaid to City of Phoenix with Regional Public Transportation Funds on June 30, 2017. During fiscal year 2014, the City of Phoenix advanced \$22,085,481 to cover the project expenses. Refer to Note 9 on page 21 for more information regarding the funding agreement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

METRO's adopted fiscal year 2015 total operating and capital budget is \$238.3 million, down \$10.4 million from fiscal year 2014's amended Budget. The primary cause for the decrease is within the capital budget; with decreases to the construction activities for the Northwest Extension (\$2.3M) and Central Mesa (\$18.9M) LRT projects. A one-time Capital Lease interest payment (\$15.9M) was paid in FY14 with no amount due in FY15. Offsetting the decreases are increases to budgets for the Gilbert Road Capital Project \$8.3M and South Tempe Streetcar \$4.7M. Background on the capital projects may be found in the Statistical Section commencing on page 31.

On the operating side, METRO's FY15 budget is \$42.5 million, down \$1.0 million versus fiscal year 2014 primarily due to reductions in planning project work scope (\$1.7M) offset by increases in revenue operations \$0.6M and agency operations \$0.1M.

**Comparison of Annual Expenditure Budgets
Fiscal Year 2015 vs. 2014**

<u>Uses of Funds</u>	FY 2015 Adopted (\$,000)	FY 2014 Amended (\$,000)	Change (\$,000)
Operating Activities:			
Revenue Operations	33,155	32,560	595
Future Project Development	8,444	10,152	(1,708)
Agency Operating Budget	928	842	86
	<u>42,527</u>	<u>43,554</u>	<u>(1,027)</u>
Capital Projects:			
Northwest Extension	75,493	77,789	(2,296)
Non-Prior Rights Utilities Relocations	13,755	13,982	(227)
Other Capital Projects:			-
Central Mesa Extension	58,448	77,390	(18,942)
Gilbert Road Capital Project	10,131	1,800	8,331
South Tempe Streetcar	5,257	511	4,746
Phoenix West Extension	415	-	415
CNPAs - Mesa Extension	2,045	3,165	(1,120)
CNPAs - Northwest Extension	4,011	1,500	2,511
Systemwide Improvements	6,898	5,699	1,199
14 LRV's Interest	-	15,897	(15,897)
Subtotal Capital before Debt Service	<u>176,453</u>	<u>197,733</u>	<u>(21,280)</u>
Capital Project Debt Service:			
Debt Service - Interest	8,120	4,508	3,612
Debt Service - Principal	11,241	2,980	8,261
Total Uses of Funds	<u>238,341</u>	<u>248,775</u>	<u>(10,434)</u>

In fiscal year 2015 METRO anticipates commencement of design and right of way acquisition on the Gilbert Road Extension. Expenses during the year are anticipated to reach \$10.1 million pending necessary approvals from City of Mesa and federal funding sources.

FINANCIAL CONTACT

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

Valley Metro Rail, Inc.
Statement of Net Position
Fiscal Year Ended June 30, 2014

Assets

Current Assets:

Cash and Investments	\$ 14,534,521
Receivables, Net	138,521
Due from Other Governments	41,878,329
Inventory	14,350,478
Other Assets	249,907
Total Current Assets	<u>71,151,756</u>

Noncurrent Assets:

Capital Assets, not being depreciated	201,245,289
Capital Assets, net of accumulated depreciation	1,040,403,760
Total Noncurrent Assets	<u>1,241,649,049</u>
Total Assets and Other Debits	<u>1,312,800,805</u>

Liabilities

Current Liabilities:

Accounts Payable	36,616,315
Labor Compliance Withholding	21,903
Other Accrued Expenses	124,080
Compensated Absences	601,098
Insurance Reserves	753,764
Due to Other Governments	9,130,286
Unearned Revenue	992,169
Member Cities Deposits	9,365,021
Total Current Liabilities	<u>57,604,636</u>

Noncurrent Liabilities:

Compensated Absences	425,134
Northwest Extension Advance Funding Obligation	60,000,000
Interest payable	468,452
Total Noncurrent Liabilities	<u>60,893,586</u>
Total Liabilities and Other Credits	<u>118,498,222</u>

Net Position

Net Investment in Capital Assets	1,181,649,049
Unrestricted	12,653,534
Total Net Position	<u>\$ 1,194,302,583</u>

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

Valley Metro Rail, Inc.Statement of Revenues, Expenses, and Changes in Fund Net Position
Fiscal Year Ended June 30, 2014**Operating Revenues:**

Contributions from Member Cities	\$ 16,803,600
Passenger Fares	12,505,116
Receipts from Federal Operating Grants	2,400,132
Other Revenues	1,730,566
Total Operating Revenues	<u>33,439,414</u>

Operating Expenses:

Administrative	8,840,445
Passenger Operations Service	31,260,365
Depreciation	38,911,674
Total Operating Expenses	<u>79,012,484</u>

Operating Income (Loss) (45,573,070)

Non-Operating Revenue / (Expense):

Federal Transit Administration Planning Grants	453,728
Public Transportation Funds	6,626,121
Private Utilities Relocations	(14,876,845)
Capital Conveyance to Member Cities	(9,949,717)
Interest on Capital Funding Obligations	(1,642,376)
Other Non-Operating Income	16,197
Total Non-Operating Revenue / (Expense)	<u>(19,372,892)</u>

Deficiency Revenues under Expenses (64,945,961)

Capital Contributions:

Capital Contributions from Member Cities	51,235
Public Transportation Funds Capital	86,209,379
Federal Transit Administration Capital Grants	27,564,363
Total Capital Contributions	<u>113,824,977</u>

Changes in Net Position 48,879,016

Net Position, Beginning of Period 1,145,423,567

Net Position, End of Period \$ 1,194,302,583

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

Valley Metro Rail, Inc.
Statement of Cash Flows
Fiscal Year Ended June 30, 2014

Cash Flows from Operating Activities	
Receipts from Member Cities	\$ 10,069,824
Receipts from Federal Operating Grants	6,338,873
Receipts from Fare Revenues	12,505,116
Other Revenues	1,637,523
Payments for Payroll Related Expenses	(13,824,734)
Payments to Suppliers	(24,347,256)
Net Cash Used in Operating Activities	<u>(7,620,654)</u>
Cash Flows from Non-Capital Financing Activities	
Receipts from FTA Non-Capital Grants	800,980
Receipts from Regional Public Transit Authority	7,290,389
Other Non-Operating Income	16,145
Payments for Concurrent Non Project Activities	(1,598,104)
Payments for Private Utility Relocations	(17,438,846)
Capital Conveyance to Member Cities	(9,949,717)
Net Cash Used in Non-Capital Financing Activities	<u>(20,879,152)</u>
Cash Flows from Capital and Related Financing Activities	
Capital Contributions from Member Cities	2,783,946
Receipts from FTA Capital Grants	28,922,917
Receipts from Regional PTF for Capital	91,448,463
Payments for Capital Lease Funding	(26,752,504)
Northwest Ext Advance Funding Obligation	22,085,481
Payments for Capital Assets	(87,801,504)
Net Cash Provided by Capital and Related Financing Activities	<u>30,686,799</u>
Net Increase in Cash and Cash Equivalents	2,186,993
Cash and Cash Equivalents, Beginning of Year	12,347,528
Cash and Cash Equivalents, End of Year	<u>\$ 14,534,521</u>
Reconciliation of Operating Income (Loss) to Net Cash Used In Operating Activities	
Operating Income (Loss)	\$ (45,573,070)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used in Operating Activities:	
Depreciation	38,911,674
(Increase) Decrease in Assets:	
Accounts Receivable	175,522
Due from Other Governments	3,293,638
Inventory	452,316
Other Assets	81,753
Increase (Decrease) in Liabilities:	
Accounts Payable	831,321
Compensated Absences	47,616
Other Accrued Expenses	(23,999)
Due to Other Governments	289,813
Insurance Reserves	250,000
Unearned Revenue	(93,043)
Member Cities' Deposits	(6,264,195)
Net Cash Used in Operating Activities	<u>\$ (7,620,654)</u>

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

1. **Summary of Significant Accounting Policies**

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

a. **Financial Reporting Entity**

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

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

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

b. **Basic Financial Statements**

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

During the year ended June 30, 2014, METRO implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Per GASB Statement No. 65, in addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. METRO did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. METRO did not have any items that qualified for reporting in this category.

c. Basis of Presentation

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

d. Measurement Focus and Basis of Accounting

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position are reported using the flow of economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency, which may result in disallowance in subsequent periods.

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

e. Cash and Investments

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

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

f. Receivables

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

g. Inventory

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

h. Prepaid Expenses

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

i. Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year.

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

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

METRO is not the legal owner of any land. The land required for the LRT system is acquired and owned by the Member Cities and is the subject of a long-term use agreement between each City and METRO. Land, subject to the above agreement, is recorded on the books of member cities.

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

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

Assets	Useful Life (Years)
Buildings	40
Guideway	50
Bridges	30
Operation Control Center	30
Passenger Stations and Facilities	30
Park and Ride Facilities	15
Electric Power Substations	25
Signal and Communication System	20
Revenue Vehicles	25
Equipment	5-15
Furniture and Fixtures	7
Non-Revenue Vehicles	4
Computers and Software	3
Site Improvements	5-10

j. Allocation of Costs to Member Cities

Design and construction costs for the 20 mile Central Phoenix East Valley Light Rail System are allocated to the member cities as follows:

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2014

- i) Regional design and construction costs are allocated based upon the Design and Construction Miles percentage method as stated in the bylaws of the corporation. The components of the LRT that are currently classified as “regional” are light rail vehicles, the maintenance and storage facility, operations control center, bridge structures, and regional park and ride lots.
- ii) Local design and construction costs are allocated to the member cities within whose boundaries the LRT Component designed or constructed will be located. Design and construction costs that are not classified as regional are deemed to be local.
- iii) Under the Design and Construction project agreements, the Member Cities provide project funding to METRO as expenditures are incurred. As federal and regional funding for the capital project is received by METRO, the members receive cash distributions to reimburse the prior expenditures.

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

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

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

k. Use of Estimates

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

l. Net Position

METRO's net position consists of unrestricted net position and net investment in capital assets.

2. Budgetary Basis of Accounting

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

public comment is received. Final adoption of the budget must be on or before June 30 of each year.

During the fiscal year, the Board of Directors modified the original budget. A schedule of actual operating revenues and expenses versus original budget and final budget is presented as supplementary information. See Page 28.

3. Cash and Investments

Cash deposits and investments at June 30, 2014, consisted of the following:

Cash on Hand and in Bank	\$ 13,534,917
Insurance Trust Fund	<u>999,604</u>
Total Cash and Investments	<u>\$ 14,534,521</u>

METRO has deployed Ticket Vending Machines (TVM's) which contain coin and bill vaults to accommodate the purchase of fares. At June 30, 2014, the total cash contained in the coin and bill vaults totaled \$152,328.

METRO's bank deposits at June 30, 2014, had a carrying value of \$13,382,589 and the bank ledger balance was \$13,475,644. The difference of \$93,055 represents deposits in transit and outstanding checks. Of the bank balance, \$250,000 is covered by federal depository insurance and \$13,225,644 is covered by securities held by the pledging financial institution in METRO's name.

The Self Insurance Reserve Trust Account totaling \$999,604 was covered by collateral held by the pledging financial institution in METRO's name.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure METRO's deposits may not be returned. METRO does not have a deposit policy for custodial credit risk. All of METRO's bank deposits are in non-interest bearing accounts.

Interest Rate Risk. METRO's formal investment policy limits type of investment as a means of managing its exposure to fair value losses arising from increasing interest rates. During FY 2014 all investment durations were shorter than 90 days.

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

Concentration of Credit Risk. METRO's Investment Policy limits the total investments by type of account including, General Operating, Imprest Fund, Self-Insurance Reserve and TVM Credit Card. At June 30, 2014, METRO maintains all available cash in these accounts.

4. Accounts Receivable and Due From Other Governments

All receivable balances at June 30, 2014 are displayed on the financial statements and are expected to be collected in full; therefore, an allowance for uncollectibles has not been recorded.

Valley Metro Rail, Inc.
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

Due from other governments consists of Federal receivables (\$13.0 million) due from the City of Phoenix as Grantee of Federal Funds, PTF receivable (\$24.6 million) due from Regional Public Transportation Authority (RPTA), project funding receivables due from cities of Phoenix and Mesa (\$2.6 and \$1.2 million respectively) and miscellaneous receivables (\$0.4 million).

City of Phoenix (Grantee of Federal Funds)	\$ 12,988,225
Public Transportation Funding	24,625,346
City of Mesa	1,210,165
City of Phoenix	2,645,665
City of Tempe	6,114
Arizona State University	2,580
Maricopa Association of Governments	400,234
Total Due from Other Governments	<u>\$ 41,878,329</u>

Public Transportation Funding is discussed more fully in Note 17.

Valley Metro Rail, Inc.
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2014

5. Capital Assets

Capital asset and construction in progress activity for the year ended June 30, 2014 were as follows:

	<u>Balances, July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances, June 30, 2014</u>
Nondepreciable assets:				
Construction in progress	\$ 114,288,418	\$ 86,956,871	\$ -	\$ 201,245,289
Depreciable assets:				
Buildings	102,532,106			102,532,106
Guideway	565,528,227			565,528,227
Bridges	61,516,388			61,516,388
Operation Control Center	13,103,434			13,103,434
Passenger Stations and Facilities	101,949,950			101,949,950
Park and Ride Facilities	40,015,939			40,015,939
Electric Power Substations	88,737,919			88,737,919
Signal and Communication System	48,514,475			48,514,475
Computers and Software	1,785,195	149,365		1,934,560
Furniture and Fixtures	1,138,274			1,138,274
Revenue Vehicles	221,422,703			221,422,703
Non-Revenue Vehicles	2,379,013	194,965		2,573,978
Site Improvements	12,825			12,825
Equipment	13,435,297	133,615	(24,282)	13,544,630
Total depreciable assets at historical cost	<u>1,262,071,745</u>	<u>477,945</u>	<u>(24,282)</u>	<u>1,262,525,408</u>
Less accumulated depreciation for:				
Buildings	(15,174,168)	(2,563,302)		(17,737,470)
Guideway	(50,880,915)	(11,310,566)		(62,191,481)
Bridges	(9,227,458)	(2,050,547)		(11,278,005)
Operation Control Center	(1,763,576)	(436,781)		(2,200,357)
Passenger Stations and Facilities	(15,292,484)	(3,398,331)		(18,690,815)
Park and Ride Facilities	(11,441,448)	(2,667,730)		(14,109,178)
Electric Power Substations	(15,978,051)	(3,549,517)		(19,527,568)
Signal and Communication System	(10,924,240)	(2,425,724)		(13,349,964)
Computers and Software	(1,617,194)	(186,788)		(1,803,982)
Furniture and Fixtures	(1,138,274)			(1,138,274)
Revenue Vehicles	(41,973,570)	(8,793,882)		(50,767,452)
Non-Revenue Vehicles	(1,565,874)	(184,421)		(1,750,295)
Site Improvements	(214)	(1,282)		(1,496)
Equipment	(6,256,790)	(1,342,803)	24,282	(7,575,311)
Total accumulated depreciation	<u>(183,234,256)</u>	<u>(38,911,674)</u>	<u>24,282</u>	<u>(222,121,648)</u>
Total capital assets being depreciated	1,078,837,489	(38,433,729)	-	1,040,403,760
Business-type activities, capital assets, net	<u>\$ 1,193,125,907</u>	<u>\$ 48,523,142</u>	<u>\$ -</u>	<u>\$ 1,241,649,049</u>

6. Member Cities' Deposits

The member cities advance monies to cover the cost of operations plus the federal and local share of project costs. In addition, unpaid expenses to be funded by member contributions are accrued for each city. A summary of member cities' deposits at June 30, 2014 follows:

City of Chandler	\$	71,129
City of Glendale		90,650
City of Mesa		316,232
City of Peoria		92,288
City of Phoenix		6,510,059
City of Tempe		2,284,663
	\$	<u>9,365,021</u>

7. Operating Leases

METRO leases office space and small office equipment under various operating lease agreements. Total rent expenditures for these leases were \$1,322,111 for the fiscal year ended June 30, 2014. Future minimum lease payments under non-cancelable operating leases are as follows:

<u>Year Ending June 30, 2014</u>	
2015	\$ 1,431,018
2016	1,416,217
2017	1,370,388
2018	1,355,508
2019-2026	10,844,061
	<u>\$ 16,417,192</u>

Beginning on July 1, 2014, METRO entered into a new contract to lease office space for a 12 year term which included 57,007 square feet of building space. Simultaneously, a sublease between METRO and RPTA took effect for 26,324 square feet. The 12 year term contract total is \$16,266,090 for METRO. The sublease to RPTA is \$7,502,340.

8. Capital Lease Obligation

METRO financed 14 Light Rail Vehicles (LRVs) under the terms of a Master Lease/Purchase Financing Agreement, with the City of Phoenix (as Lessor).

The following table presents the changes in the capital lease obligation for fiscal year 2014:

	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>	<u>Amount Due in One Year</u>
Capital Lease Obligation	\$ 12,186,000	\$ -	\$ (12,186,000)	\$ -	\$ -

For Fiscal Year 2014, Capital Lease interest expense totaling \$1,219,812 was accrued under the Master Lease Agreement generating a total accrued interest to date of \$14,566,504. The

final Capital Lease principal and accrued interest obligation was paid as of June 1, 2014 for a total payment of \$26,752,504. The payment includes \$12,186,000 principal and \$14,566,504 accrued interest.

9. Northwest Extension Advance Funding Obligation

METRO signed the Project Funding Agreement (Northwest Light Rail Extension) between The City of Phoenix and Valley Metro Rail, Inc. on December 20, 2012. The agreement provides \$60.0 million during fiscal years 2013 and 2014 to fund the expenses of the Northwest Light Rail Extension capital project. These funds will be repaid to City of Phoenix with Public Transportation Funds on June 30, 2017. During the fiscal years 2013 and 2014, the City of Phoenix advanced \$37,914,519 and \$22,085,481, respectively, totaling \$60,000,000 by the end of fiscal year 2014 to cover the project expenses.

Schedule of Advance Funding Obligation Payable as of June 30, 2014

<u>Year ending June 30</u>	<u>Principal Payments</u>	<u>Principal Advanced</u>	<u>Interest</u>	<u>Total Obligation</u>
2013	\$ -	\$ 37,914,519	\$ 45,887 *	\$ 37,960,406
2014	-	22,085,481	422,565	60,468,452
2015	-	-	607,464	
2016	-	-	922,464	
2017	60,000,000	-	1,251,397	
	<u>\$ 60,000,000</u>	<u>\$ 60,000,000</u>	<u>\$ 3,249,777 *</u>	

* Interest shown is accrued to date and future amounts payable

For Fiscal Year 2013 and 2014, Capital Lease interest expense was \$45,887 and \$422,565, respectively, totaling \$468,452, which was accrued under the Project Funding Agreement. The Advance Funding Obligation at June 30, 2014 includes \$60,000,000 principal and \$468,452 accrued interest for a total of \$60,468,452.

As of June 30, 2013 and 2014, City of Phoenix records agree with the Principal Advanced and Total Obligation amounts per the schedule shown above.

10. Compensated Absences

The following presents the changes in compensated absences for the fiscal year ended June 30, 2014:

	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>
Compensated absences	\$ <u>978,616</u>	\$ <u>819,330</u>	\$ <u>(771,714)</u>	\$ <u>1,026,232</u>

The portion of compensated absences payable within one year is \$601,098.

11. Due to Other Governments

METRO receives employee services as well as Public Transportation Funds (PTF) for capital project planning and design and construction funding from RPTA. As of June 30, 2014 METRO owed to RPTA \$1,667,080 for payroll and fringe benefits and \$7,463,206 for PTF Accrued Reimbursements for a total of \$9,130,286.

Payroll and Fringe Benefits	\$ 1,667,080
PTF Accrued Reimbursements	<u>7,463,206</u>
Total Due to RPTA	<u><u>\$ 9,130,286</u></u>

12. Contractual and Other Commitments

METRO has entered into various contractual agreements for engineering services, project management, construction administration, light rail vehicles, construction, operations services, legal services and artists. At June 30, 2014, METRO had remaining contractual commitments for these services aggregating approximately \$216.6 million. These commitments have not been recorded in the accompanying financial statements. Only the currently payable portions of these contracts have been included in accounts payable in the accompanying financial statements. Subsequent to June 30, 2014, METRO entered into approximately \$6.4 million additional contractual commitments. All amounts listed below have been rounded to the nearest \$1,000.

<u>Contractor</u>	<u>Commitment</u>	<u>Spent-to-date</u>	<u>Remaining</u>
AECOM	\$ 3,964,000	\$ 2,640,000	\$ 1,324,000
Allied Barton Security Services	8,685,000	4,815,000	3,870,000
Alternative Concepts - Transportation Operations	64,296,000	53,584,000	10,712,000
City of Mesa Admin and Real Estate Services	14,881,000	13,808,000	1,073,000
City of Phoenix Admin and Real Estate Services	27,330,000	4,345,000	22,985,000
Natural Power & Energy LLC	2,875,000	-	2,875,000
Scheidt Bachmann - Fare Collection System	8,564,000	8,342,000	222,000
Sundt Stacey/Witbeck JV	161,520,000	74,261,000	87,259,000
Valley Transit Constructors - Central Mesa	128,013,000	67,207,000	60,806,000
Various - Central Mesa Ext. Program Management	17,316,000	12,489,000	4,827,000
Various - Future Extensions	21,318,000	17,405,000	3,913,000
Various - Misc. Construction and Services	11,939,000	6,869,000	5,070,000
Various - NW Ext. Program Management	6,294,000	2,911,000	3,383,000
Various - Operations & Maintenance	10,367,000	3,567,000	6,800,000
Various - Public Art Program	2,099,000	641,000	1,458,000
	<u><u>\$ 489,461,000</u></u>	<u><u>\$ 272,884,000</u></u>	<u><u>\$ 216,577,000</u></u>

13. Risk Management

METRO is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted labor; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. METRO purchases insurance coverage for property, general liability, excess liability, automobile liability, umbrella liability, public entity employment practices liability, public entity management liability, boiler and machinery, crime, inland marine, owner's protective professional indemnity, environmental site protection, contractor's environmental protection and excess liability. In addition, the RPTA purchases workers' compensation, employee life insurance, health and dental insurance coverage for all LRT full-time employees. Settled claims for these risks have never exceeded commercial insurance limits. See schedule of insurance on page 45 and Note 15-Related Party Transactions.

METRO has received notice of general liability claims related to its operations. METRO's commercial insurance policies provide coverage against losses arising from the claims subject to policy deductible amounts. Such claims are evaluated and specific reserves are established

to cover METRO's contingent risk of loss pending settlement with the parties involved. At June 30, 2014 the Reserve for General Liability Claims totaled \$753,764.

14. Contingencies

As a subrecipient of federal grant monies, amounts passed through or receivable from other agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although METRO expects such amounts, if any, to be immaterial.

15. Related Party Transactions

All of the five member cities of METRO's Board of Directors are also member cities of the sixteen-member RPTA Board of Directors. The Board members of the cities of Glendale, Phoenix, and Tempe represent their cities on both Boards. METRO has entered into contracts with the RPTA for certain administrative functions, including personnel, administration, financial and accounting services, purchasing, and computer support services. All METRO staff is hired and employed by RPTA but works solely under the direction of the METRO and its Board of Directors, through a contractual arrangement with RPTA. Any payroll related liabilities including Compensated Absences are obligations of METRO due to RPTA. For the period July 1, 2013 through June 30, 2014, METRO incurred costs of \$13,316,008 for services provided by RPTA.

In September 2010, the METRO Board authorized the Chief Executive Officer (CEO) to enter into a sublease with the Regional Public Transportation Authority (RPTA) for a portion of the office space currently leased and occupied by METRO. The contract commenced in December 2010 and would end in June 2016. Office space lease costs were paid by METRO monthly to the landlord and then prorated and charged to RPTA based on square footage used by RPTA. In July 2014, a new contract with the landlord was made which also includes the sublease with RPTA. This new contract begins on July 1, 2014 and will end on June 30, 2026. The total sublease over the 144-month period is estimated to equal \$7,502,340.

16. Arizona State Retirement System

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

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

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and METRO's contribution rate. For the year ended June 30, 2014, active plan members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll and METRO was required by statute to contribute at the actuarially determined rate of 11.54 percent (10.70 percent retirement, 0.60 percent health plan, and 0.24 percent long-term disability) of the members' annual covered payroll. METRO's contributions to the

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2014

System for the years ended June 30, 2014, 2013 and 2012 were \$1,057,735, \$919,848, and \$700,325 respectively, which were equal to the required contributions for the year.

Schedule of Retirement and Long Term Disability Benefits Accrued

Years ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Total Benefits
2014	\$ 980,742	\$ 54,995	\$ 21,998	\$ 1,057,735
2013	850,488	49,543	19,817	919,848
2012	642,290	42,385	15,650	700,325

17. Public Transportation Funding

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

Valley Metro Rail began receiving Public Transportation Funding (PTF) in March 2006. These monies are used to reimburse private utility companies for costs incurred in the relocation of non-prior rights utilities, to reimburse Member Cities for their share of local costs incurred in connection with the acquisition of certain regional transportation assets, and to fund the local share of future light rail extensions as designated in the Regional Transportation Plan. Cash outlays for LRT Public Transportation Fund expenses during fiscal year 2014 totaled \$67,017,180 as summarized in the table below.

Public Transportation Fund Cash Expenditures (LRT Portion)
Fiscal Year ended June 30, 2014

<u>LRT PTF Expenditures:</u>	<u>\$ In Millions</u>
Regional Transportation Plan Projects:	
Central Mesa LRT Extension	20.34
Northwest Extension Phase I	4.94
Tempe Streetcar	0.03
Systemwide Improvements	27.16
Non Prior Rights Utility Relocations:	
Central Mesa LRT Extension	0.01
Northwest Extension Phase I	0.34
Other	0.04
Project Development and Planning	6.70
Debt Service	7.46
<u>Total LRT PTF Cash Expenditures</u>	<u>67.02</u>

Valley Metro Rail, Inc.

Notes to the Financial Statements (Concluded)
Fiscal Year Ended June 30, 2014

In June 2009, the Regional Public Transportation Authority (RPTA) issued Transportation Excise Tax Revenue Bonds in the amount of \$100,075,000. A portion of the 2009 Series Bonds will pay or reimburse LRT capital expenditures as designated in the Regional Transportation Plan. As of June 30, 2014, the 2009 Series Bond expenditures to date for the LRT program totaled \$55,000,628.

In January 2014, the Regional Public Transportation Authority (RPTA) issued Transportation Excise Tax Revenue Bonds in the amount of \$115,000,000. The 2014 Series Bonds will pay or reimburse LRT capital expenditures as designated in the Regional Transportation Plan. As of June 30, 2014, 2014 Series Bond expenditures to date for the LRT program totaled \$36,196,079.

18. New Accounting Pronouncement

GASB Statement No.68, *Accounting and Financial Reporting for Pensions* will be effective for METRO's June 30, 2015 fiscal year end. This Statement replaces the requirements of prior GASB standards for pensions accounting and reporting. This Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. Each employer participating in a multiple-employer defined benefit pension plan will be required to record a liability representing their "proportionate share" of the plan's total net pension liability. This Statement also enhances accountability and transparency through revised note disclosures and new required supplementary information.



OTHER SUPPLEMENTARY INFORMATION

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



Councilmember Valenzuela places a commemorative plaque at the First Track Celebration of the Northwest Extension.



Mesa Mayor Scott Smith, a welding student from East Valley Institute of Technology, and officials from Valley Transit Constructors participate in the first rail weld for the Central Mesa Extension.

Valley Metro Rail, Inc.

Schedule of Operations - Budget and Actual
Fiscal Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget</u> <u>Over (Under)</u>
Sources of Funds:				
Net Contributions From Member Cities	\$ 42,954,633	\$ 29,394,150	\$ 46,956,071	\$ 17,561,921
Passenger Fares	12,621,010	12,621,010	12,505,116	(115,894)
Federal Transit Administration Grants	40,917,011	54,310,973	30,385,722	(23,925,251)
TIGGER Federal Grant	2,715,000	2,715,000	32,502	(2,682,498)
Public Transportation Funds - Sales Tax	58,502,144	60,195,601	28,984,979	(31,210,622)
Public Transportation Funds - Bonds	42,585,297	87,788,789	62,302,797	(25,485,992)
MAG/RPTA Grants	1,150,000	1,150,000	1,093,043	(56,957)
Other Revenues	600,000	600,000	653,668	53,668
Total Sources of Funds	202,045,095	248,775,523	182,913,898	(65,861,625)
Uses of Funds:				
Operating Activities:				
Revenue Operations	34,236,454	32,560,475	31,260,365	(1,300,110)
Future Project Development	9,740,613	10,151,771	7,904,432	(2,247,339)
Agency Operations	826,188	841,911	775,455	(66,456)
Sub Total Operating Activities Use of Funds	44,803,255	43,554,157	39,940,252	(3,613,905)
Capital Projects:				
Northwest Extension	43,671,916	77,788,670	48,876,772	(28,911,898)
Central Mesa Extension	54,579,811	77,390,171	44,054,927	(33,335,244)
Gilbert Road Capital Project	4,176,873	1,800,301	898,862	(901,439)
Tempe Streetcar Extension	4,046,500	510,897	195,118	(315,779)
Non-Prior Rights Utilities Relocations	11,755,572	13,981,644	14,876,838	895,194
Systemwide Improvements	21,592,866	21,596,214	15,461,202	(6,135,012)
Concurrent Non Project Activities	9,930,081	4,665,248	11,121,706	6,456,458
Sub Total Capital Before Debt Service	149,753,619	197,733,145	135,485,425	(62,247,720)
Capital Project Debt Service:				
Debt Service - Interest	4,508,221	4,508,221	4,508,221	-
Debt Service - Principal	2,980,000	2,980,000	2,980,000	-
Total Uses of Funds	202,045,095	248,775,523	182,913,898	(65,861,625)
Excess Revenues Over Expenses - Budgetary Basis	\$ -	\$ -	\$ -	\$ -

Explanation of Differences between Budgetary Basis and GAAP Basis

Total Uses of Funds - Budgetary Basis	\$ 182,913,898
Total Operating Expenses - GAAP Basis	(79,012,484)
Budgetary Operating Expenses in Excess of GAAP Operating Expenses	<u>\$ 103,901,414</u>
Capital Projects Before Debt Service (Budgeted expenses not recorded to expense for GAAP basis)	\$ 135,485,425
Capital Projects Debt Service (Budgeted expenses not recorded to expense for GAAP purposes)	7,488,221
Depreciation (GAAP expenses not included in budgetary basis)	(38,911,674)
All Other Adjustments	(160,558)
Total Reconciling Items	<u>\$ 103,901,414</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.



Regular passengers and visitors enjoy riding through a unique blend of urban and desert landscape



STATISTICAL SECTION

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

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

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how METRO's financial performance and well-being have changed over time.	32
Revenue Capacity METRO's principal source of operating revenues are contributions from Member Cities. With respect to capital projects, METRO receives federal grants and utilizes Public Transportation Funds administered by the Regional Public Transportation Authority (RPTA). (Refer to Note 17 on Page 24 in the Notes to the Financial Statements section.)	N/A
Debt Capacity METRO has no current bond indebtedness. See Notes to the Financial Statements; refer to Note number 17, Public Transportation Funding (Page 24) for information regarding revenue bonds issued by RPTA which provide funding for LRT capital expenditures. Refer to Note number 8 Capital Lease Obligation (Page 20) and Note number 9, Northwest Extension Advance Funding Obligation (Page 21) for information related to METRO's current debt obligations.	N/A
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which METRO's financial activities take place.	34
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in METRO's financial report relates to the services METRO provides and the activities it performs.	37

Valley Metro Rail, Inc.
Net Position by Component
FY 04/05 through FY 13/14

Business-type activities	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14
Investment in Capital Assets (1)										
Buildings	\$ -	\$ -	\$ 68,855,662	\$ 67,108,795	\$ 97,611,148	\$ 95,047,845	\$ 92,484,543	\$ 89,921,241	\$ 87,357,938	\$ 84,794,636
Guideway	-	-	-	-	545,989,800	548,218,379	537,014,911	525,957,875	514,647,312	503,336,746
Bridges	-	-	-	-	60,491,115	58,440,569	56,390,023	54,339,476	52,288,930	50,238,383
Operation Control Center	-	-	-	-	11,536,240	11,145,181	10,754,123	10,363,064	11,339,858	10,903,077
Passenger Stations & Facilities	-	-	-	-	96,272,225	96,296,602	93,454,131	90,055,799	86,657,467	83,259,135
Park and Ride Facilities	-	-	-	-	34,769,334	32,504,345	33,909,949	31,242,220	28,574,490	25,906,761
Electric Power Substations	-	-	-	-	86,707,115	83,413,644	79,858,902	76,309,385	72,759,869	69,210,351
Signal and Communication System	-	-	-	-	45,202,398	44,924,177	42,495,843	40,015,959	37,590,235	35,164,511
Computers & Software	171,226	108,076	949,273	852,789	574,791	179,859	-	174,758	168,000	130,578
Furniture & Fixtures	113,186	739,880	844,591	692,090	531,100	370,110	209,121	74,243	-	-
Revenue Vehicles (2)	-	-	3,246,541	116,875,456	164,031,893	163,521,294	163,681,089	164,746,761	167,304,100	-
Support/Service Vehicles (3)	188	188	706,809	646,471	587,896	-	-	-	-	-
Non-Revenue Vehicles	-	-	-	209,605	958,053	733,227	1,056,448	731,731	813,139	11,329
Site Improvements	-	-	-	-	-	-	-	-	12,611	170,655,251
Equipment	2,754	497,319	995,075	1,222,755	8,214,895	9,993,522	9,131,945	8,461,421	7,137,540	5,969,319
Construction in Progress (4)	235,618,498	459,034,837	698,209,539	895,953,882	27,776,412	27,747,360	32,911,926	44,410,295	76,373,899	141,245,288
Subtotal Investment in Capital Assets	\$ 235,905,852	\$ 460,380,300	\$ 773,807,490	\$ 1,083,561,843	\$ 1,181,254,415	\$ 1,172,536,114	\$ 1,153,352,954	\$ 1,136,804,227	\$ 1,143,025,388	\$ 1,180,825,365
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	6,602,251	6,196,414	5,019,683	2,062,204	2,398,179	12,653,534
Total business-type activities net position	\$ 235,905,852	\$ 460,380,300	\$ 773,807,490	\$ 1,083,561,843	\$ 1,187,856,666	\$ 1,178,732,528	\$ 1,158,372,637	\$ 1,138,866,431	\$ 1,145,423,567	\$ 1,193,478,899

Source: Valley Metro Rail, Inc. Finance Division

- (1) CP/EV LRT project costs incurred prior to July 1, 2004, for project preliminary engineering and project management totaling \$77.1 million paid for by member cities or federal grants were contributed to METRO during the fiscal year ended June 30, 2005. Prior to FY 04/05, these amounts were included in Administration and Planning Services.
- (2) Revenue Vehicles are shown net of depreciation and net of Capital Lease obligation.
- (3) In FY 09-10 Support Service Vehicles and Non-Revenue Vehicles were combined for presentation purposes.
- (4) In FY 12/13 and FY 13/14, Construction in Progress is shown net of the Northwest Extension Advance Funding Obligation.

Valley Metro Rail, Inc.
Changes in Net Position
FY 04/05 through FY 13/14

	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14
Operating Revenues										
Contributions from Member Cities (1)	\$ 27,692,841	\$ 75,672,696	\$ 156,033,959	\$ 143,276,140	\$ 13,490,504	\$ 25,964,781	\$ 19,430,008	\$ 14,274,817	\$ 11,614,615	\$ 16,803,600
Passenger Fares					3,371,104	9,256,913	10,238,281	11,889,930	12,791,801	12,505,116
Federal Transit Administration Operating Grants (1)	74,819,942	150,717,452	146,442,055	953,877	-	222,519	240,000	3,614,541	5,382,997	2,400,132
Public Transportation Funds (1)	-	11,700,029	57,160,186	58,315,376	-	-	-	-	-	-
Other Revenues					40,000	103,410	908,728	1,225,206	1,252,967	1,730,566
Total Operating Revenues	102,512,783	238,090,177	359,636,200	202,545,393	16,901,608	35,547,623	30,817,017	31,004,494	31,042,380	33,439,414
Operating Expenses										
Administration and Planning Services (2)	1,001,016	1,829,944	5,709,157	5,396,474	5,278,901	9,540,355	7,213,806	8,201,127	8,287,393	8,840,445
Passenger Operations Service					15,678,389	32,964,701	31,020,111	28,909,661	28,711,628	31,260,365
Private Utilities Relocations	-	11,700,029	39,212,754	15,750,886						
Depreciation	136,944	186,644	1,389,987	2,231,538	22,437,891	39,685,152	39,176,737	39,115,165	38,978,409	38,911,674
Total Operating Expenses	1,137,960	13,716,617	46,311,898	23,378,898	43,395,181	82,190,208	77,410,654	76,225,953	75,977,430	79,012,484
Operating Income (Loss)	101,374,823	224,373,560	313,324,302	179,166,495	(26,493,573)	(46,642,585)	(46,593,637)	(45,221,459)	(44,935,050)	(45,573,070)
Non-Operating Revenues (Expense)										
Federal Transit Administration Operating Grants					650,492	2,557,861	2,118,259	1,059,848	799,020	453,728
Public Transportation Funds					10,945,204	5,484,246	8,678,822	6,469,470	10,111,118	6,626,121
Private Utilities Relocations					(9,518,863)	965,013	(3,732,886)	(56,477)	(5,500,205)	(14,876,845)
Capital Conveyance to Member Cities									(11,487,566)	(9,949,717)
Interest on Capital Funding Obligation					(2,083,503)	(4,167,007)	(2,083,503)	(2,827,876)	(2,230,691)	(1,642,376)
Interest on Investments	80,162	100,888	102,888	91,519	-	15	36	-	-	52
Distributions to Member Cities					(20,078,532)	(106,249,903)	(38,400,636)	(6,664,230)	-	-
Other Non-Operating Revenues (Expenses)						142,025	160,757	23,491	24,522	16,145
Total Non-Operating Revenues (Expense)	80,162	100,888	102,888	91,519	(20,085,202)	(101,267,750)	(33,259,151)	(1,995,774)	(8,283,802)	(19,372,892)
Capital Contributions										
Federal Transit Administration Capital Grants	-	-	-	130,496,339	72,863,699	62,585,921	7,255,308	9,125,090	27,742,023	27,564,363
Contributions from Member Cities					25,381,955	31,156,572	2,651,494	330,700	4,268,007	51,235
Public Transportation Funds Capital					52,627,944	45,043,704	49,586,095	18,255,237	27,765,958	86,209,379
Donated Engineering (3)	77,109,027	-	-	-	-	-	-	-	-	-
Total Capital Contributions	77,109,027	-	-	130,496,339	150,873,598	138,786,197	59,492,897	27,711,027	59,775,988	113,824,977
Increase (Decrease) in Net Position	\$ 178,564,012	\$ 224,474,448	\$ 313,427,190	\$ 309,754,353	\$ 104,294,823	\$ (9,124,138)	\$ (20,359,891)	\$ (19,506,206)	\$ 6,557,136	\$ 48,879,016

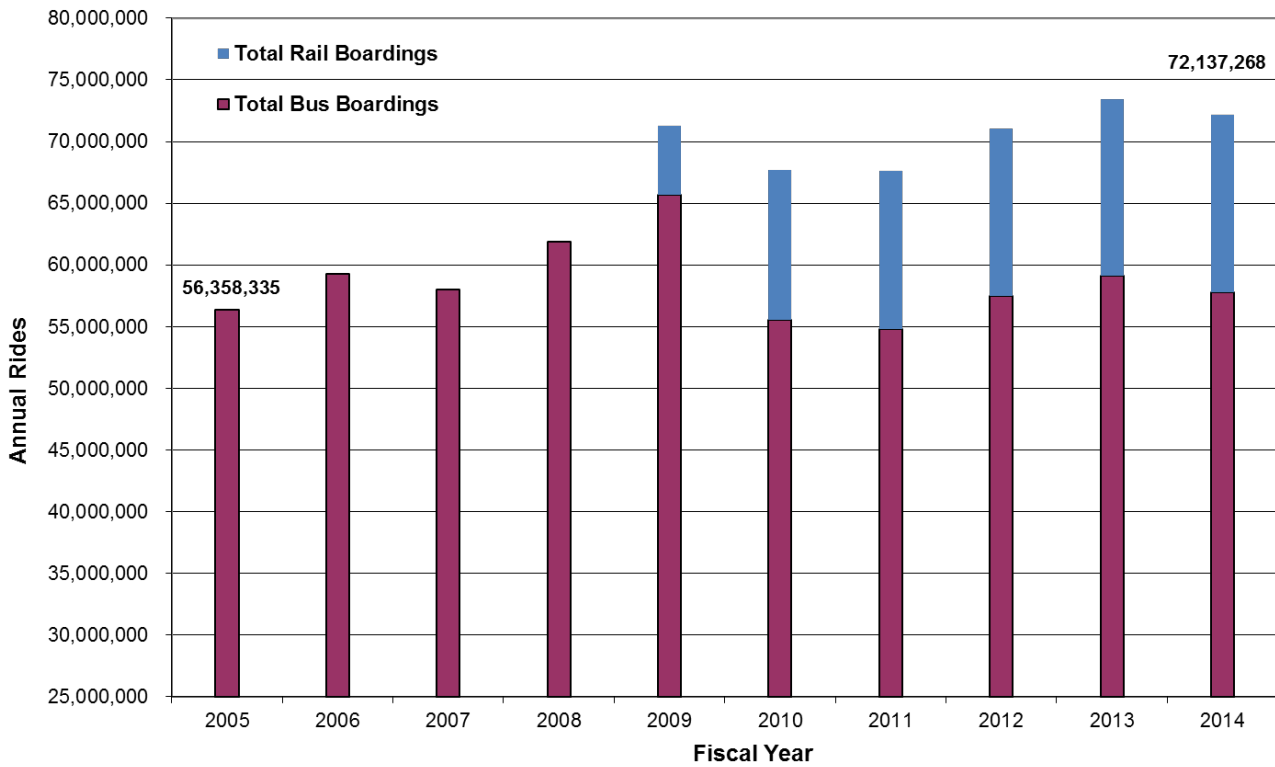
Source: Valley Metro Rail, Inc Finance Division

- (1) Prior to FY 08/09, CP/EV local, federal and regional capital contributions were recorded as operating revenues.
- (2) Prior to FY 04/05, all CP/EV project costs, except for the cost of computers, equipment, and certain other capital assets, were recorded as operating expenses.
- (3) CP/EV LRT project costs incurred prior to FY 04/05 for project preliminary engineering and project management were contributed to METRO during FY 04/05. These costs, totaling \$77.1 million, were originally paid for by member cities or federal grants and were included in Administration and Planning Services expenses for the year incurred.

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

<u>Fiscal Year</u>	<u>Boardings</u>	<u>Change</u>
2005	56,358,335	4.34%
2006	59,253,904	5.14%
2007	58,020,189	-2.08%
2008	61,866,819	6.63%
2009	71,251,664	15.17%
2010	67,693,003	-4.99%
2011	67,607,530	-0.13%
2012	71,043,488	5.08%
2013	73,408,824	3.33%
2014	72,137,268	-1.73%

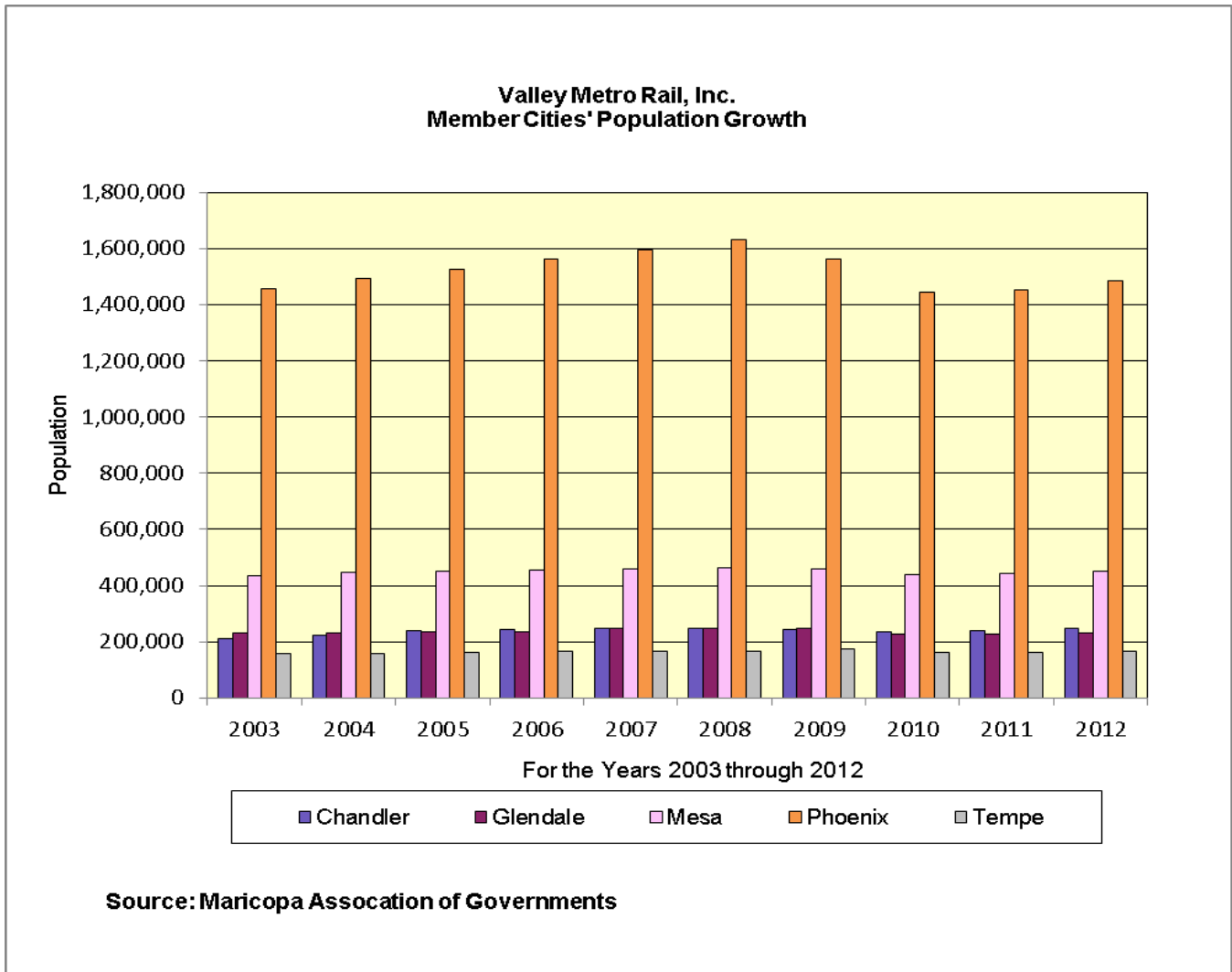
**Valley Metro Regional Bus and Rail Passenger Boardings by Fiscal Year
 Fixed Route System**
Ten Year Growth rate 28.00%



Source: Regional Public Transportation Authority

Valley Metro Rail, Inc.
Population Growth
Ten Years from 2003 to 2012

<u>Year</u>	<u>Chandler</u>	<u>Glendale</u>	<u>Mesa</u>	<u>Phoenix</u>	<u>Tempe</u>
2003	211,984	231,288	434,585	1,455,440	159,426
2004	224,644	233,000	445,354	1,492,420	159,615
2005	238,930	235,987	451,223	1,525,400	160,820
2006	241,910	235,987	455,151	1,560,380	165,796
2007	247,100	246,382	460,155	1,595,260	166,625
2008	247,100	248,731	463,397	1,630,340	167,458
2009	244,376	248,435	459,682	1,561,485	172,641
2010	236,123	226,721	439,041	1,445,632	161,719
2011	238,381	227,446	441,160	1,451,966	162,503
2012	246,197	231,109	450,310	1,485,751	165,158

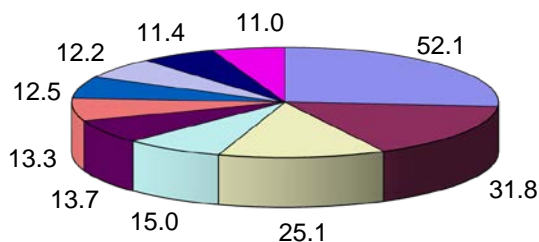


Year 2012 is the most current year available.

Valley Metro Rail, Inc.
Top Employers in Maricopa County
For the Year 2013 and Nine Years Ago

Employer	2013			2004		
	Employees	Rank	% of Total	Employees	Rank	% of Total
State of Arizona	52,076	1	2.94%	50,363	1	2.96%
Wal-Mart Stores, Inc.	31,837	2	1.80%	18,677	2	1.10%
Banner Health Systems	25,126	3	1.42%	13,756	3	0.81%
City of Phoenix	14,983	4	0.84%	13,095	5	0.77%
Wells Fargo & Company	13,679	5	0.77%			
Maricopa County	13,308	6	0.75%	13,482	4	0.79%
Bank of America	12,500	7	0.70%			
Arizona State University	12,222	8	0.69%	10,005	10	0.59%
JPMorgan Chase & Co.	11,407	9	0.64%			
Intel Corp.	11,000	10	0.62%			
Honeywell International				12,000	6	0.70%
US Postal Service				11,406	7	0.67%
Raytheon Co.				10,200	8	0.60%
Albertson's-Osco				9,500	9	0.56%
Total for Principal Employers	<u>198,138</u>		<u>11.17%</u>	<u>162,484</u>		<u>9.53%</u>
Total Employment in Maricopa Cty	1,773,535			1,704,221		

2013 - Employees (000s)



- State of Arizona
- Wal-Mart Stores, Inc.
- Banner Health Systems
- City of Phoenix
- Wells Fargo & Company
- Maricopa County
- Bank of America
- Arizona State University
- JPMorgan Chase & Co.
- Intel Corp.

Source: Greater Phoenix Economic Council at www.gpec.org for major employers
Workforce Informer Arizona at www.workforce.az.gov for total employed in Maricopa County

CENTRAL MESA

LIGHT RAIL EXTENSION



valleymetro.org/centralmesa

REPORT CARD

JULY 2014

PROJECT DESCRIPTION

The 3.1-mile Central Mesa project extends light rail east from the current end-of-line through downtown Mesa to Mesa Dr. by late 2015. It consists of four stations and a park-and-ride on the northeast corner of Main St. and Mesa Dr. The extension will add approximately 5,000 new riders and attract additional development to downtown Mesa.

BENEFITS

The Central Mesa extension will serve the growing transit demand in the East Valley. It will connect residents to the downtown Mesa business district, new educational institutions, Mesa Arts Center, Mesa City Plaza, special events and activities in adjacent downtown centers in Tempe and Phoenix.



UPDATE

Community Relations

- Community Advisory Board recommended 100% for the July evaluation
- Promoted Shop On Main St. at the Celebration of Freedom event on July 4 at the Mesa Convention Center.
- Continued to provide project wide construction updates to stakeholders and NEDCO
- Continue to respond to and address specific stakeholder concerns and requests related to construction.

Construction

- Work continues on the guideway in downtown Mesa to install new guideway, curbs, rumble strips and landscape islands
- Work continues on the new power and systems infrastructure
- New traffic signal poles were installed in the downtown area
- Work continued on new vendor power facilities and power for the new banner poles in the downtown area
- All four stations are under construction

Right of Way

- Real estate acquisition process is nearly complete

Utilities

- SRP conversion from overhead to underground on the Northeast corner of Main St. and Longmore is now complete
- SRP installed new electrical service for street lights and traffic signals between Rogers and Stewart

BUDGET

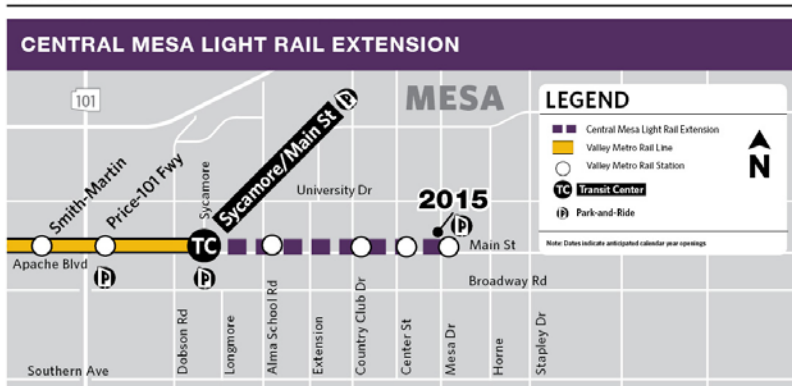
Description	Programmed	Expended**	% Expended	Forecast
Construction	\$123,680,352	\$67,084,629	54.2%	\$123,680,352
Utilities	\$7,000,000	\$2,267,628	32.1%	\$7,000,000
Right of Way	\$16,539,662	\$13,570,153	82.6%	\$16,539,662
Public Art	\$1,174,370	\$349,988	29.8%	\$1,174,370
Design/Management	\$50,616,059	\$24,273,249	48.0%	\$50,616,059
TOTAL	\$199,010,443	\$107,545,646	54.0%	\$199,010,443

SCHEDULE

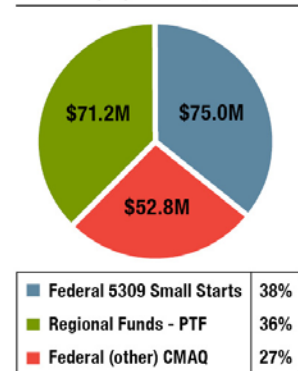
Description	Baseline	Current	% Complete
Construction	08-01-2015	04-16-2015	55.0%
Utilities	04-08-2015	11-30-2014	80.0%
Right of Way	07-15-2013	10-01-2014	95.0%
Public Art	04-30-2015	10-30-2015	30.0%
Design/Management	05-29-2015	05-29-2015	48.0%
Testing/Start-up	11-15-2015	11-15-2015	0%

**Estimated as of July 31, 2014.

ROUTE MAP



FUNDING (\$M) – TOTAL \$199M



LRT2020/7.3.14

NORTHWEST PHASE I

LIGHT RAIL EXTENSION TO DUNLAP AVENUE



valleymetro.org/northwest

REPORT CARD

JULY 2014

PROJECT DESCRIPTION

The 3.2-mile Northwest Phase I project extends light rail north from the current end-of-line to Dunlap Ave. by 2016. It consists of three stations and a park-and-ride on the southwest corner of 19th and Dunlap avenues. The extension will add approximately 5,000 new riders and attract additional development to north central Phoenix.

BENEFITS

The Northwest extension will enhance mobility options for a transit-reliant community and will offer connectivity to employment centers near the I-17 freeway. It will support nearly 10,000 family housing units and help 20,000 employees get to work. It will also bolster community revitalization.



UPDATE

Community Relations

- Community Advisory Board rated the contractor 100% for July
- First Track milestone event was held on July 12, 2014 at the future Dunlap Park and Ride site.
- Provided construction updates and safety plans to neighborhood schools and organizations
- Continued to respond to stakeholders questions and concerns

Construction

- Track construction has begun at Dunlap station
- Roadway widening is taking place on 19th Ave. between Dunlap Ave. and Las Palmaritas Dr., as well as between Maryland Ave. and Bethany Home Rd.
- Work continues on the installation of water, sewer and storm drains.
- Rail welding is completed

Right of Way

- City of Phoenix has completed the extension of all temporary construction easements on the project.

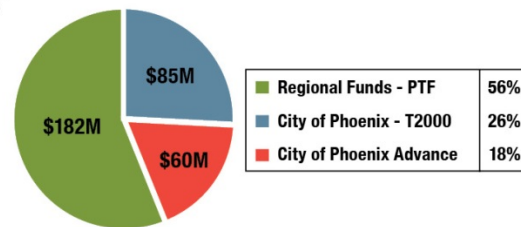
Utilities

- SRP Irrigation is working in the intersection of Northern and 19th avenues installing the final section of irrigation main.
- CenturyLink is working between Glendale Ave. and Bethany Home Rd. relocating their facilities.

ROUTE MAP



FUNDING (\$M) – TOTAL \$327M



BUDGET				
Description	Programmed	Expended**	% Expended	Forecast
Construction	\$150,725,627	\$77,978,534	51.7%	\$150,725,627
Utilities	\$31,791,360	\$17,319,405	54.5%	\$31,791,360
Right of Way	\$76,374,576	\$70,636,091	92.5%	\$76,374,576
Public Art	\$951,239	\$314,399	33.1%	\$951,239
Design/Management	\$66,749,098	\$37,121,918	55.6%	\$66,749,098
TOTAL	\$326,591,900	\$203,370,347	62.3%	\$326,591,900

SCHEDULE			
Description	Baseline	Current	% Complete
Construction	04-26-2016	01-25-2016	55.0%
Utilities	06-30-2014	10-30-2014	56.0%
Right of Way	10-30-2013	07-30-2014	94.0%
Public Art	11-30-2015	11-30-2015	36.0%
Design/Management	07-30-2015	07-30-2015	56.0%
Testing/Start-up	07-25-2016	07-25-2016	0%

**Estimated as of July 31, 2014

LRT2020/7.3.14

TEMPE STREETCAR



valleymetro.org/tempestreetcar

REPORT CARD
OCTOBER 2014

PROJECT DESCRIPTION


Following a three-year study that evaluated high-capacity transit improvements to support the Tempe and Chandler areas and enhance the existing, regional transit network, a streetcar project in the Mill Avenue corridor was adopted locally and regionally into the Regional Transportation Plan in 2010.

The 2010-adopted project ran in a one-way loop between Rio Salado Parkway and University Drive, going north on Mill Avenue and south on Ash Avenue. It continued to travel north/south on Mill Avenue between University Drive and Southern Avenue.

Valley Metro, in coordination with the City of Tempe, recommended a modified streetcar route to better fit the new federal funding criteria and meet community goals. The Tempe City Council supported the route recommendation for a 3.1-mile Tempe streetcar project in June 2014 as shown below.

BENEFITS

Tempe Streetcar will increase transit ridership in central Tempe, connect neighborhoods to downtown activities and provide greater mobility to a growing number of students, employees and visitors. It will also support the revitalization of neighborhoods and attract development.



UPDATE

- Public Meeting schedule for Monday, December 1 to update and provide input on recommendations for the modified Tempe Streetcar route, stop locations and traffic configurations

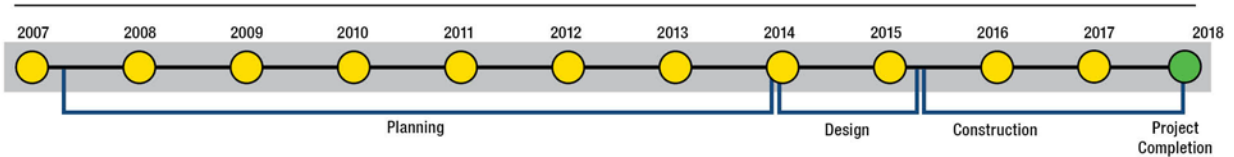
BUDGET		
	Estimated*	Expended**
Project Development	\$9,900,000	\$7,307,861
Final Design	\$13,340,000	\$0
Construction	\$166,760,000	\$0
TOTAL	\$190,000,000	\$7,307,861

*Does not include financing cost.
 **Estimated as of October 31, 2014.

ROUTE MAP



SCHEDULE



GILBERT ROAD

LIGHT RAIL EXTENSION



valleymetro.org/gilbertroad

REPORT CARD

OCTOBER 2014

PROJECT DESCRIPTION

The 1.9-mile Gilbert Rd. project will extend light rail beyond the Central Mesa extension on Main St. to Gilbert Rd. in Mesa by 2018. It consists of two stations and a park-and-ride on the west side of Gilbert Rd. At Gilbert Rd., there are significant transit connections and the ability to draw more riders from the East Valley.

BENEFITS

The Gilbert Rd. extension will serve the growing transit demand in the East Valley. It will attract new riders and increase development opportunities in central Mesa.



UPDATE

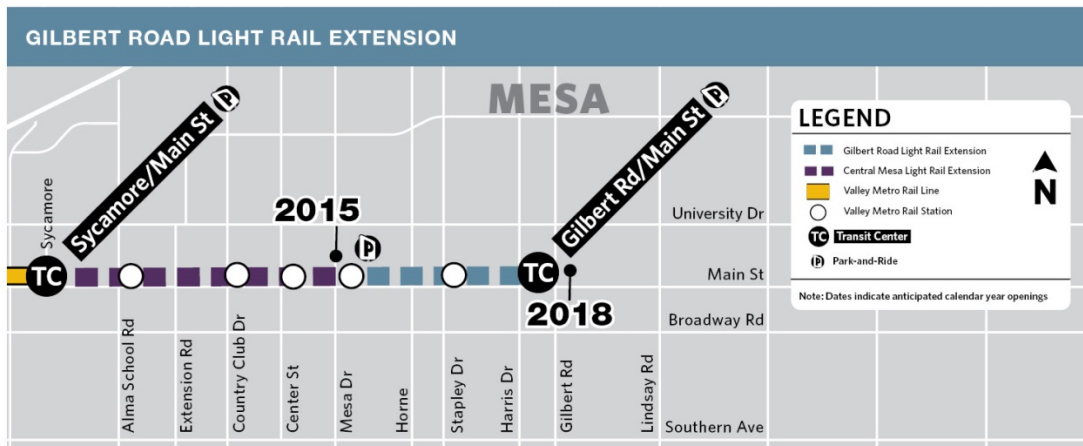
- The design elements of preliminary engineering are complete
- Estimates of project construction costs have been reviewed and comments resolved
- Currently defining how the funding will be applied
- Project agreements are being refined to include project specific information as it becomes available

BUDGET

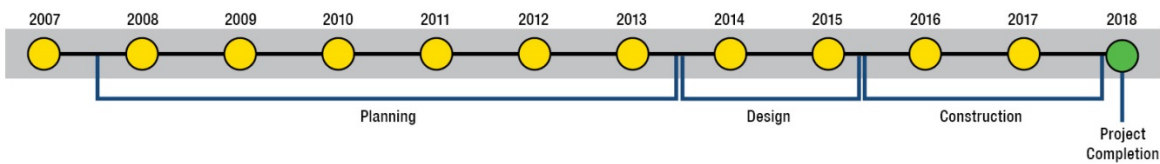
	Programmed*	Expended**
Project Development	\$11,100,000	\$2,167,194
Final Design	\$20,400,000	\$0
Construction	\$130,200,000	\$0
TOTAL	\$161,700,000	\$2,167,194

*Does not include financing cost.
**Estimated as of October 31, 2014.

ROUTE MAP



SCHEDULE



LRT2020/11.3.14

CAPITOL / I-10 WEST

LIGHT RAIL EXTENSION



valleymetro.org/capitolwest

REPORT CARD

JULY 2014

PROJECT DESCRIPTION

The 11-mile Capitol/I-10 West project will extend light rail from downtown Phoenix through the State Capitol area to 79th Ave. and the I-10 freeway by 2023. It will consist of several freeway and neighborhood stations and enhancements to the existing 79th Ave./I-10 park-and-ride facility.

BENEFITS

The Capitol/I-10 West extension will provide enhanced transit service to the growing West Valley, giving residents greater access to jobs, schools and their community. It will also connect to major employment centers such as the State Capitol and help ease congestion on the I-10 freeway.



UPDATE

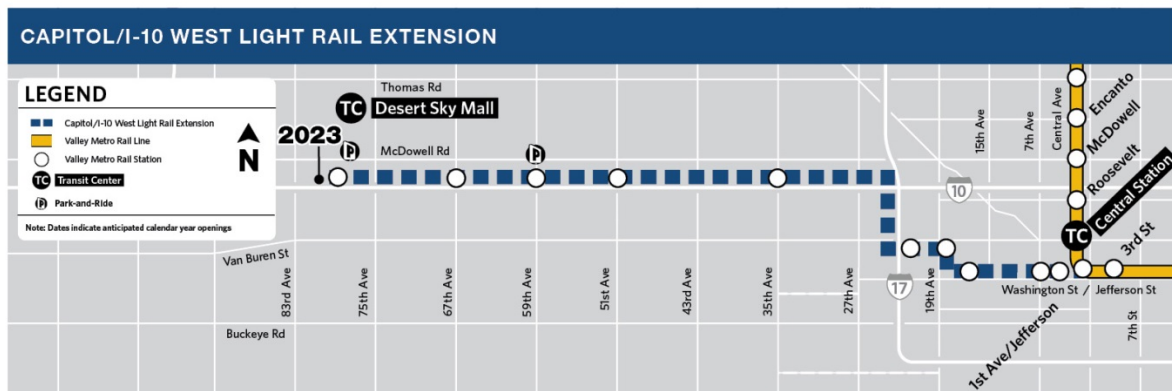
- Completed the draft traffic report
- Completed the draft advanced conceptual engineering plans
- Conducted additional noise and vibration analysis at Maricopa County, U.S. Federal Courthouse and Fox Studio
- Report updates:
 - > Completed the draft historic and archeological assessment
 - > Completed the biological resources memo
 - > Completed the water resources memo
 - > Working on draft noise and vibration report
 - > Working on visual technical report

BUDGET

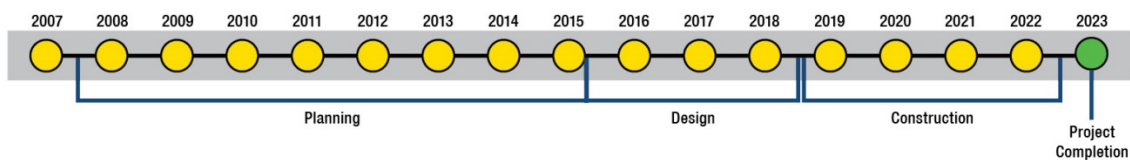
	Programmed*	Expended**
Project Development	\$39,500,000	\$8,526,257
Final Design	\$56,200,000	\$0
Construction	\$1,020,100,000	\$0
TOTAL	\$1,115,800,000	\$8,526,257

*Does not include financing cost.
**Estimated as of July 31, 2014.

ROUTE MAP



SCHEDULE



LRT2020/7.3.14

Valley Metro Rail, Inc
Full-Time Equivalent Positions

Source: Valley Metro Rail, Inc Finance and Administration Division

Grade	RPTA Position Titles	Authorized FTEs (1)				
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
I	Cleaner	0.0	0.0	11.0	9.0	10.0
III	Administrative Support Assistant	1.0	1.0	1.0	0.5	0.5
	Document Control Clerk	0.0	0.0	0.0	0.0	1.9
	LRV Yard Operator	0.0	0.0	2.0	2.0	2.0
	Stockroom Clerk	0.0	0.0	2.0	2.0	2.0
IV	Accounting Technician	1.0	1.0	1.0	1.0	0.0
	Administrative Assistant	6.0	6.0	8.0	8.0	6.4
	Lead Document Control Clerk	1.0	1.0	1.0	1.0	0.9
	LRV Inspector	0.0	0.0	8.0	9.0	9.0
	Materials Handler	1.0	1.0	1.0	1.0	1.0
VI	LRV Maintenance Technician I	0.0	0.0	6.0	11.0	11.0
	Paralegal	1.0	1.0	1.0	1.0	0.5
	Track Maintainer	6.0	6.0	6.0	6.0	6.0
VII	Accountant I	2.0	2.0	2.0	2.0	0.9
	Contract Specialist	0.0	0.0	0.0	1.0	0.8
	Executive Assistant	2.0	2.0	2.0	2.0	1.7
	Help Desk Support Specialist	0.0	0.0	1.0	1.0	1.5
	LRV Maintenance Technician II	0.0	0.0	11.0	10.0	10.0
	Planner I	0.0	0.0	0.0	0.0	0.8
	Procurement Specialist	0.0	0.0	0.0	0.0	0.2
	Signal & Comm Systems Maintainer	6.0	6.0	6.0	6.0	6.0
	Utility Relocation Specialist	1.0	1.0	1.0	1.0	1.0
Vehicle Parts Coordinator	0.0	0.0	1.0	1.0	1.0	
VIII	Engineering Technician	1.0	1.0	1.0	1.0	1.0
	Executive Administrative Coordinator	1.0	1.0	1.0	1.0	1.0
	Graphics Designer	0.0	0.0	0.0	0.0	1.4
	Information Technology Systems Specialist	1.0	1.0	1.0	0.0	0.0
	LRV Lead Maintenance Technician	0.0	0.0	3.0	3.0	3.0
	Maintenance Scheduling	1.0	0.0	0.0	0.0	0.0
	Materials/Warranty Coordinator	2.0	2.0	2.0	2.0	2.0
	Signal & Communications Syst Tech	4.0	4.0	7.0	7.0	9.0
Traction Power Systems Technician	10.0	10.0	10.0	13.0	13.0	
IX	Accountant II	1.0	0.0	0.0	0.0	0.0
	Area Coordinator	2.0	2.0	2.0	4.0	5.8
	Budget Analyst	0.0	1.0	1.0	1.0	1.0
	Contract Administrator	1.0	1.0	1.0	1.0	0.2
	LRV Maintenance Supervisor	0.0	0.0	3.0	4.0	3.0
	Network Support Analyst	1.0	1.0	1.0	1.0	1.0
	Planner II	1.0	1.0	1.0	0.0	2.1
	Public Information Specialist	0.0	0.0	0.0	1.0	0.5
	Safety Specialist	0.0	0.0	0.0	1.0	0.6
	Supervisor, Facility Maintenance	1.0	1.0	1.0	0.0	0.0
Supervisor, Track Maintenance	1.0	1.0	1.0	1.0	0.0	
X	Engineer (Civil)	1.0	1.0	1.0	0.0	0.0
	Maintenance of Way Supervisor	0.0	0.0	0.0	0.0	3.0
	Network Systems Engineer	0.0	0.0	0.0	2.0	1.8
	Program Control Specialist	1.0	1.0	1.0	1.0	1.0
	Senior Contract Administrator	2.0	2.0	2.0	2.0	2.3
	Signals/Communications Maintenance Supervisor	1.0	1.0	1.0	1.0	0.0
TES Supervisor	2.0	2.0	2.0	2.0	0.0	

Valley Metro Rail, Inc
Full-Time Equivalent Positions (Continued)

Grade	RPTA Position Titles	Authorized FTEs (1)				
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
XI	Accountant III	0.0	1.0	1.0	1.0	0.0
	GIS Administrator	0.0	0.0	0.0	0.0	0.5
	Planner III	2.0	2.0	2.0	3.0	1.0
	Project Manager	0.0	0.0	0.0	0.0	1.5
	Public Arts Administrator	1.0	1.0	1.0	1.0	1.0
	Public Information Officer	1.0	1.0	1.0	1.0	0.0
	Quality Assurance Administrator	0.0	0.0	1.0	1.0	1.0
	Senior Construction Project Coordinator	0.0	0.0	1.0	1.0	1.0
	Senior Management Analyst	0.0	0.0	0.0	0.0	0.3
XII	Assist. Superintendent LRV Maintenance	0.0	0.0	1.0	1.0	1.0
	Budget & Operations Financial Controls Manager	0.0	0.0	0.0	0.0	0.5
	Business Manager	0.0	0.0	0.0	1.0	0.0
	Communications Manager	0.0	0.0	0.0	0.0	0.5
	Community Relations Manager	0.0	0.0	0.0	0.0	0.7
	LRT Systems Manager	0.0	0.0	0.0	0.0	1.0
	Lead Procurement Officer	0.0	0.0	0.0	0.0	1.2
	Program Manager, Safety & Training	0.0	0.0	1.0	1.0	1.0
	Marketing Manager	0.0	0.0	0.0	0.0	0.5
	Rail Public Involvement Manager	1.0	1.0	1.0	1.0	0.0
	Senior Transportation Engineer	0.0	0.0	0.0	1.0	0.0
	Track & Facilities Manager	0.0	0.0	0.0	0.0	1.0
	Utility Manager	1.0	1.0	1.0	1.0	1.0
XIII	Corridor & Facility Development Manager	0.0	0.0	0.0	0.0	0.9
	Financial Reporting Manager	0.0	0.0	0.0	0.0	0.4
	Information Technology Manager	0.0	0.0	0.0	0.0	0.5
	Procurement & Risk Management Manager	1.0	1.0	1.0	1.0	0.0
	Project Controls Manager	1.0	1.0	1.0	1.0	1.0
	Quality Assurance Manager	1.0	0.0	0.0	0.0	1.0
	Rail Design & Construction Manager	1.0	1.0	1.0	0.0	0.0
	Rail Project Manager, Transit Planning	1.0	1.0	1.0	1.0	0.0
	Resident Engineer	0.0	0.0	0.0	1.0	1.0
	Senior Project Engineer	1.0	1.0	1.0	1.0	1.0
System & Service Development Manager	0.0	0.0	0.0	0.0	0.4	
XIV	Chief, Rail Safety and Security	0.0	1.0	1.0	1.0	0.6
	Construction and Utilities Manager	0.0	0.0	0.0	1.0	0.9
	Contracts & Procurement Manager	0.0	0.0	0.0	0.0	0.5
	Chief Maintenance Engineer	0.0	1.0	1.0	1.0	1.0
	Chief System Engineering Officer	1.0	1.0	1.0	0.0	0.0
	Chief Transportation Officer	1.0	0.0	0.0	0.0	0.0
	Design Manager	0.0	0.0	0.0	0.0	1.0
	Government Relations Officer	0.0	0.0	0.0	0.0	0.5
	Manager, Start up & Activation	0.0	0.0	0.0	0.0	1.0
	Revenue Generation & Financial Planning Manager	0.0	0.0	0.0	0.0	0.3
Superintendent, LRV Maintenance	0.0	0.0	1.0	1.0	1.0	
XV	Administration & Organizational Development Director	0.0	0.0	0.0	0.0	0.5
	Rail Chief Operations Officer	0.0	1.0	1.0	1.0	0.0
	Communications and Marketing Director	1.0	1.0	1.0	1.0	0.5
	Chief Financial Officer	1.0	1.0	1.0	1.0	0.5
	Chief of Staff	0.0	0.0	0.0	0.0	0.5
	Rail Safety, Security, and Quality Director	1.0	0.0	0.0	0.0	0.0
XVI	Chief Engineer	0.0	0.0	0.0	0.0	1.0
	Chief Transportation Officer	0.0	0.0	0.0	0.0	0.6
	Rail Design & Construction Director	1.0	1.0	0.0	0.0	0.0

Valley Metro Rail, Inc
Full-Time Equivalent Positions (Concluded)

Grade	RPTA Position Titles	Authorized FTEs (1)				
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Rail Operations & Maintenance Director	1.0	0.0	0.0	0.0	0.0
	Planning/Development Director	1.0	1.0	1.0	1.0	0.9
GC	General Counsel	1.0	1.0	1.0	1.0	0.5
ED	Chief Executive Officer	1.0	1.0	1.0	0.5	0.5
		<u>85.0</u>	<u>84.0</u>	<u>141.0</u>	<u>153.0</u>	<u>161.0</u>

(1) Information prior to FY2010 was not available.

Valley Metro Rail, Inc.
Schedule of Insurance Coverage
For the Fiscal Year Ended June 30, 2014

Source: Valley Metro Rail, Inc Contracts and Procurement Division

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

Policy #	Coverage	Limits	Policy Term	Premium	Carrier
KTKCMB2700C68613	Commercial Property	144,072,758 TIV 10,000 Deductible 25,000,000 Flood & EQ 100,000 Flood & EQ Deductible	12/1/2013-14	\$110,591	Travelers Indemnity Co.
QT660583B340TIL13	Inland Marine - Rolling Stock	151,190,408 Limit 100,000 Deductible	12/1/2013-14	\$181,452	Travelers P&C Insurance Co. of America
QT660883B3525IL13	Inland Marine - Town Lake Bridge	22,581,224 Limit 100,000 Deductible 5,000,000 Flood & EQ Limit	12/1/2013-14	\$30,710	Travelers P&C Insurance Co. of America
IMCI211112951007	DIC - Excess Flood for Town Lake Bridge	15,000,000 per Occurrence x/o 5,000,000 underlying	12/1/2013-14	\$36,334	ACE Fire Underwriters Insurance Co.
016113266	Commercial Crime	1,000,000 Limit 10,000 Deductible	12/1/2013-14	\$1,722	National Union Fire
72UENKC6629	Commercial Auto Liability excluding buses and light rail vehicles	500,000 CSL Limit 5,000 Deductible 5,000,000 Collision Deductible	12/1/2013-14	\$62,885	Hartford Fire Insurance Co.
PEM000003800	SIR Buffer	250,000 Each Occurrence 500,000 Aggregate	12/1/2013-14	\$97,609	Gemini Insurance Co.
N1A3RL000006604	Primary Excess Liability	10,000,000 x/o 500,000 SIR	12/1/2013-14	\$421,855	Princeton Excess and Surplus Lines Insurance Co.
1000005138	Excess Liability	10,000,000 x/o 10,000,000	12/1/2013-14	\$93,176	Starr Indemnity & Liability Co.
03051169	Excess Liability	15,000,000 x/o 20,000,000	12/1/2013-14	\$62,730	Allied World National Assurance Co.
EXC1910421	Excess Liability	25,000,000 x/o 35,000,000	12/1/2013-14	\$101,555	Great American Assurance Co.

Valley Metro Rail, Inc.
Schedule of Insurance Coverage (Concluded)
For the Fiscal Year Ended June 30, 2014

Source: Valley Metro Rail, Inc Contracts and Procurement Division

Policy #	Coverage	Limits	Policy Term	Premium	Carrier
EAU777849012013	Excess Liability	25,000,000 x/o 60,000,000	12/1/2013-14	\$38,700	AXIS Surplus Insurance Co.
G24100868005	Excess Liability	15,000,000 x/o 85,000,000	12/1/2013-14	\$80,290	Westchester Surplus Lines Insurance Co.
W20710	Workers Compensation & Employers Liabilities Insurance Policy	WC - Statutory EL - 1,000,000	3/1/2014-15	-	SCF Western Insurance Company
3731234	Pollution Legal Liability (Fixed-site coverage)	5,000,000 each Pollution Incident 5,000,000 Aggregate 25,000 Deductible	12/1/2012-15	\$23,697	Chubb Custom Insurance Co.

PRE-INCORPORATION ACTIVITIES

November 2000 - Final light rail alignment approved

February 2001 - Project opens community office for the public

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

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

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

VALLEY METRO RAIL, INC. ACTIVITIES

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

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

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

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

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

March 2007 - Phoenix City Council approves funding for Northwest Extension

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

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

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

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

October 2011 - Valley Metro receives a \$1.0 million federal grant to conduct an Alternatives Analysis on the South Central Phoenix Corridor.

May 2012 - Valley Metro celebrates groundbreaking for the 3.1 mile Central Mesa LRT Extension.

June 2012 - Phoenix City Council approves funding plan to accelerate Northwest Extension Project

July 2012 - Phoenix City Council approves the 11 mile Phoenix West Extension Project light rail alignment.

October 2012 - Project Construction Grant Agreement signed for the Central Mesa Extension Project.

January 2013 – Groundbreaking of the Northwest Extension light rail construction adding 3.2 miles to existing 20 mile system.

September 2013 – Valley Metro Rail Board approves APS Solar Renewable Energy Credit Purchase Agreement paving the way for solar panel installation at the Operations and Maintenance facility.

November 2013 – Valley Metro received the Finding of No Significant Impact (or FONSI) from the FTA completing the federal environmental assessment for the 1.9-mile Gilbert Road light rail extension.

December 2013 – On Saturday, Dec. 7, light rail reached a historic ridership record with 65,773 boardings.

Source: Valley Metro Rail, Inc. Finance Division



101 North First Avenue | Suite 1300 | Phoenix, AZ 85003 | valleymetro.org