



Valley Metro Rail, Inc.
Phoenix, Arizona
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2013



VALLEY METRO RAIL, INC.

Phoenix, Arizona

Comprehensive Annual Financial Report

For the fiscal year ended

June 30, 2013

**Prepared by:
Finance Division**



2013 Facts and Figures

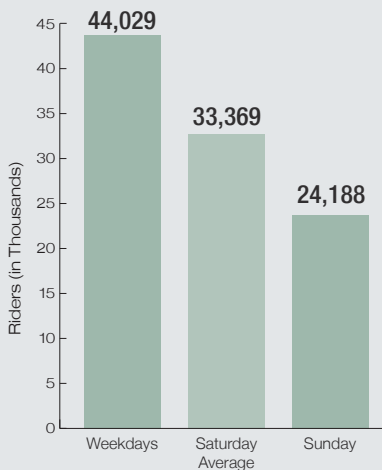


Top five busiest stations

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

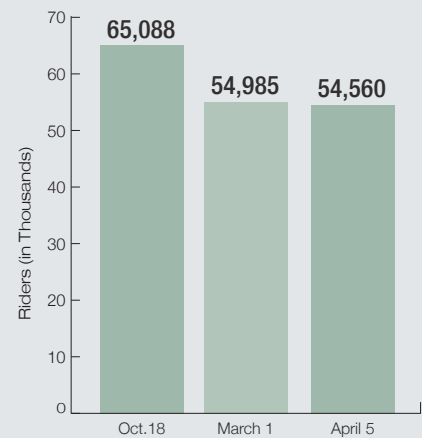
Ridership

- 14 million total riders
- Increase of 5.4% over 2012



Highest ridership days

- Oct. 18, 2012–ASU Football
- March 1, 2013–Suns Game
- April 5, 2013–Tempe Art Festival and 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: \$35.3 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 million riders in 2012, exceeding the prior year by nearly 5.4 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 paid for using a \$587 million federal New Starts grant, \$59 million from federal Congestion Mitigation and Air Quality funding and local tax dollars. The local funds are a mix of sales tax revenue from the cities of Phoenix and Tempe, General Fund from Mesa and the county's Proposition 400 half-cent sales tax.

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

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



Operations

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

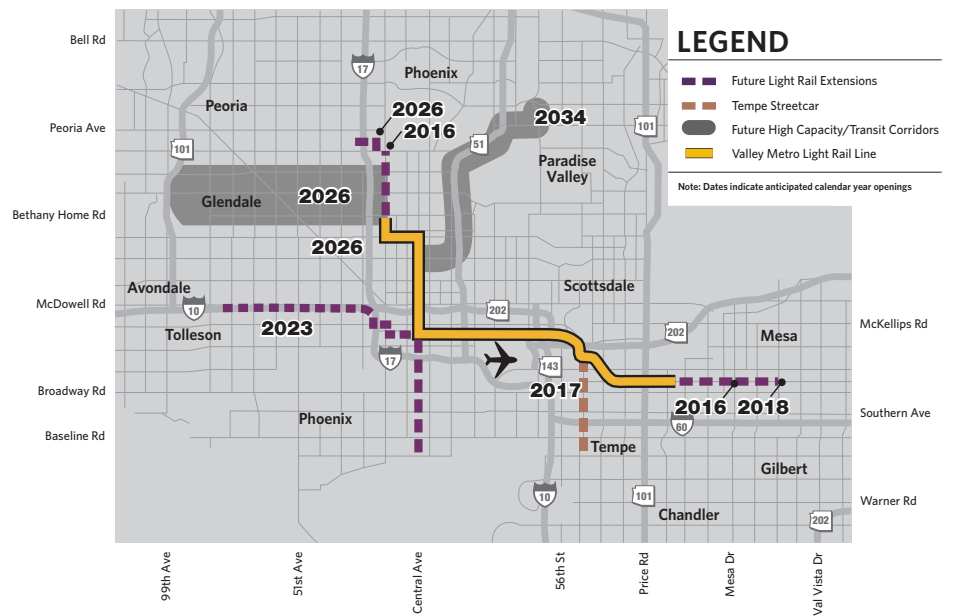
Light rail service is coordinated with bus service to provide a seamless network for customers. An all-day pass or greater is good for both rail and bus. Passes can be purchased at fare vending machines located at each station, online or from retail outlets valleywide. Security officers regularly patrol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

For many, the light rail system provides connection to work, school and play. There are several sports and entertainment venues, arts and culture organizations and restaurants and bars that attract riders to the line. Light rail also connects to Phoenix Sky Harbor International Airport with PHX Sky Train at the 44th Street/Washington light rail station.



Future Expansion

Valley Metro is responsible for building a 57-mile, high-capacity transit system as defined in the Regional Transportation Plan by 2032. Planning, design and/or construction has begun on the six extensions that make up the remainder of the 37 miles yet to be completed; a study is also underway for South Central Phoenix. Two extensions are currently under construction: Central Mesa and Northwest Phoenix. The Capital / I-10 West extension also has been defined as a light rail corridor. A 2.6-mile modern streetcar line is planned for central Tempe. The other two – West Phoenix/Central Glendale and Northeast Phoenix – have yet to determine a specific transit route and mode.





Valley Metro Rail, Inc.

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INTRODUCTORY SECTION

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



Train approaching Roosevelt / Central Avenue Station



101 North 1st Avenue
Suite 1300
Phoenix, AZ 85003

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, 2013, 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, 2013, 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, 2013, 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, 2013, 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 2012-2013, 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 2.4 million residents in the year 2000 to 2.5 million residents in 2010, an increase of approximately 10.5% in the last ten years. The five cities' population represents almost 66% 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 and 2013 regional revenues have rebounded, growing by 3.4%, 4.3% and 5.5% respectively. Due to the strong financial plan established for the 20 mile initial light rail system, the funding for operation of the system is secure.

Despite the 2009 downturn, increases in population and changing demographics have led to increased demands for quality public transportation and improved air quality. Over the last five years, public transportation ridership grew by 18.7 percent in the region. With the commencement

of rail passenger operations in December 2008, the LRT System added new capacity to the regional transportation system. Since opening, the METRO light rail line has experienced strong passenger growth with average weekday ridership reaching 44,029 passengers in fiscal year 2013 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, 2013, 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 commitments, actual expenditures, and forecasted cost at completion. METRO evaluates project contractual costs and estimates the cost at completion as part of the regular project reporting process. Should anticipated contractual costs appear to exceed the Board approved project budget, METRO staff will seek Board action to adjust project scope or approve additional funding. During construction, significant issues are addressed in narrative reports included in the project progress report submitted to the Board on a quarterly basis.

With the commencement of passenger operations in December 2008, METRO has continued to refine detailed cost estimates for manpower, contracted costs, utilities and insurance to construct the annual operations budget. Analysis and comparisons of METRO's planned costs to peer city light rail systems have been conducted. Actual costs are tracked against budget and reported to Member Cities on a monthly basis with significant variances analyzed and communicated. Member Cities fund the cost of the operations based upon the ratio of route miles in operation within each jurisdiction. In the first forty-two (54) months of operations, METRO has successfully operated within budget while achieving on-time and reliability performance targets.

With respect to fare revenues, METRO has engaged an armored car service contractor to pick up fare payments deposited by customers in the fare vending machines. The armored car service deposits daily collections into the City of Phoenix regional fare revenue depository. METRO works in collaboration with the City of Phoenix to compute and distribute fare revenues to the Member Cities. In the first fifty four months, METRO's fare revenues have exceeded budget and actual costs have come in under budget. METRO's fare recovery ratio exceeded 44.5% in fiscal year 2013 comparing favorably with peer agencies located in the western United States. (See below table)

Light Rail Systems

2011 NTD	Dallas	Denver	Houston	Sacramento	Salt Lake City	San Diego	Peer Average	METRO (FY 2013)
Fare Recovery Ratio	12%	42%	32%	32%	36%	57%	31%	45%

*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 90% complete. Construction commenced in January 2013 and has progressed to over 28% complete as of September 30, 2013. The Central Mesa Light Rail Extension, adding an additional 3.1 miles eastward along Main Street to Mesa Drive is scheduled for completion in 2016. Design and real estate acquisition has progressed to over 95% complete. Construction commenced in July of 2012 and has progressed to over 32% 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 is anticipated in late 2013 and design and construction are expected to commence in 2014 and 2015 respectively. In Tempe, a 2.6 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 2017. 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 36-39 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 operations commencing on December 27, 2008. Revenue operations commenced January 1, 2009 providing service from 5AM to 11PM seven days a week. Weekday riders have access to trains every 12 minutes from 7AM to 7PM. Weekend and off-peak weekday service frequencies range from 15 to 20 minutes.

Northwest Extension LRT Project

The Northwest Extension is a 4.6 mile light rail project starting at the northwest termination point of the Central Phoenix/East Valley Light Rail project. The project follows 19th Avenue to Dunlap Avenue, then west on Dunlap Avenue to 25th Avenue and then runs on 25th Avenue to Mountain View Road. In March 2007 the Phoenix City Council approved an initial 3.2 mile phase to be locally funded, without federal funding support. 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 2016 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 2.6 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, 2013, \$358.8 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. A portion of the bonds will pay or reimburse LRT capital expenditures as designated in the Regional Transportation Plan.

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

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, 2012. 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

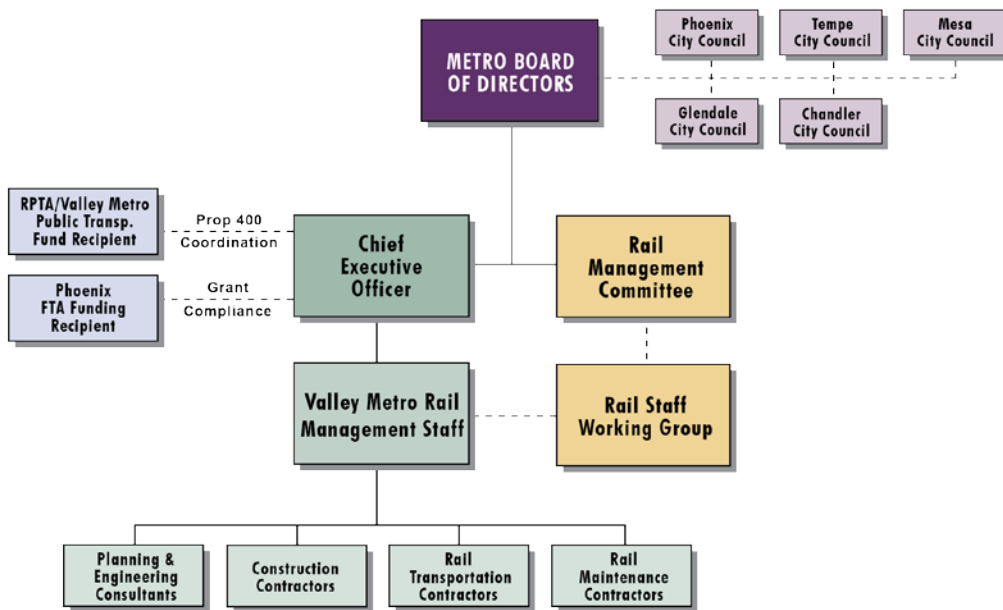
June 30, 2012

Executive Director/CEO



Arizona State University students boarding train

**VALLEY METRO RAIL, INC.
Policy Organizational Chart
Fiscal Year Ended June 30, 2013**



VALLEY METRO RAIL, INC.
List of Appointed Officials
Fiscal Year Ended June 30, 2013

Board of Directors

Board Chairman	Councilmember Thelda Williams, Phoenix
Vice Chairman	Councilmember Shanna Ellis, Tempe
Board Member	Councilmember Rick Heumann, Chandler
Board Member	Mayor Jerry Weiers, City of Glendale
Board Member	Councilmember Dennis Kavanaugh, Mesa

Executive Management Team

Chief Executive Officer	Stephen R. Banta
Chief of Staff	Jyme Sue McLaren
Chief Operations Officer	Raymond Abraham
Director, Design and Construction	Rick Brown
Director, Communication and Marketing	Hillary Foose
Director, Planning and Development	Wulf Grote
Director of Admin and Organizational Development	Carol Ketcherside
General Counsel	Mike Ladino
Chief Financial Officer	John McCormack
Chief, Safety and Security	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.

Construction on 19th and Glendale Avenues



Central Mesa Construction Program - Shop On Main Street



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, 2013, 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 METRO'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 METRO'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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity 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. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013, 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 basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the METRO's basic 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 basic 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 1, 2013, 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

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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, 2013. 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 \$6.6 million in FY 2013. The increase was caused by new capital investments which exceeded scheduled depreciation charges. Total net position for METRO was \$1.145 billion at June 30, 2013.
- METRO's operating revenues for FY 2013 were \$31.0 million compared to \$31.0 million for the prior period. Operating revenues consisted of contributions from METRO member cities (\$11.6 million), passenger fares (\$12.8 million), FTA operating grants (\$5.4 million) and other revenues (\$1.3 million). Passenger operating costs were reduced by \$0.2 million and fare revenues were increased by \$0.9 million. The combination of cost savings measures, increased ridership (fare revenue) and utilization of federal grant funding resulted in reductions in contributions from Member Cities of \$2.7 million.
- Capital contributions totaled \$59.8 million consisting of Member City Contributions of \$4.3 million, Public Transportation Funds of \$27.8 million and Federal Transit Administration Capital Grants totaling \$27.7 million. In addition, the City of Phoenix provided an advance capital loan for \$37.9 million for the Northwest Extension capital project. Construction in progress for capital projects includes \$31.8 million for the Central Mesa LRT extension and \$38.3 million for the Northwest LRT extension. In addition, the capital funds provided for a \$10.0 million capital lease payment for 14 light rail vehicles and for conveyance of \$11.5 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.

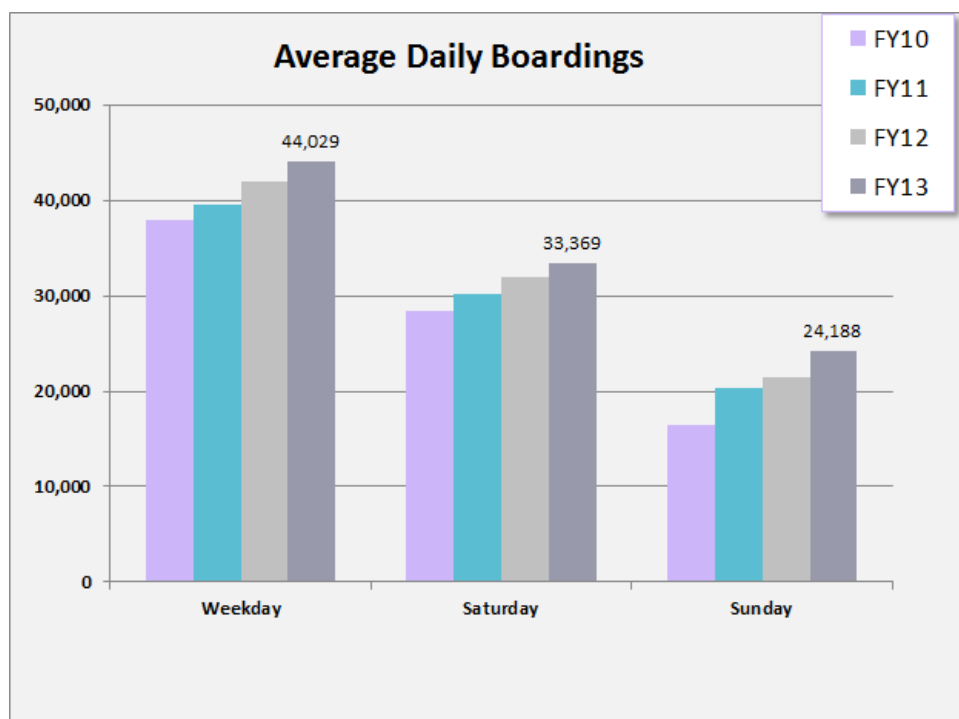
The statement of net position presents information on all of METRO's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of METRO is improving or deteriorating.

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



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, 2013, 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, 2013, compared to the prior period.

**VMR's Condensed Statement of Net Position
As of June 30, 2013 and 2012**

	2013	2012	Change	Percent Change
Current assets	\$ 77,300,100	\$ 40,472,072	\$ 36,828,028	91.0%
Noncurrent assets	1,193,125,907	1,158,677,475	34,448,432	3.0%
Total assets	<u>1,270,426,007</u>	<u>1,199,149,547</u>	71,276,460	5.9%
Current Liabilities	73,323,565	36,581,615	36,741,950	100.4%
Noncurrent Liabilities	51,678,875	23,701,501	27,977,374	118.0%
Total liabilities	<u>125,002,440</u>	<u>60,283,116</u>	64,719,324	107.4%
Net Investment in Capital				
Assets	1,143,025,388	1,136,804,227	6,221,161	0.5%
Unrestricted	<u>2,398,179</u>	<u>2,062,204</u>	335,975	16.3%
Total Net Position	<u>\$ 1,145,423,567</u>	<u>\$1,138,866,431</u>	<u>\$ 6,557,136</u>	<u>0.6%</u>

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 \$6.6 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 slightly by \$0.04 million. Member City contributions decreased \$2.7 million and were primarily impacted by increases in Passenger Fares, advertising revenues and federal operating grants.

Operating expenses decreased by \$0.2 million to \$76.0 million: Administrative expenditures increased slightly from \$8.2 to \$8.3 million. Passenger Operations Service expenses were reduced by \$0.2 million from \$28.9 to \$28.7 million. Depreciation expense reduced slightly from \$39.1 million to \$39.0 million for the year.

Non-Operating expenses: This year's non-operating revenue and expense activities report a net \$8.3 million decrease in net position. The decrease includes capital conveyance of real estate to member cities (\$11.5 million), private utility relocation expense (\$5.5 million) and accrued interest expense on the 14 LRV capital lease obligation and Northwest Extension capital funding obligation (\$2.2 million). The expenses were offset by Regional Public Transportation Funds (\$10.1 million) and federal planning grants (\$0.8 million).

Capital contributions totaling \$59.8 million consist of FTA capital grants (\$27.7 million), Public Transportation Funds (\$27.8 million) and Member City Contributions (\$4.3 million). Capital projects funded include the Central Mesa and Northwest Extension construction projects, along with capital improvements to light rail vehicles and other equipment. The \$32.1 million increase over prior year capital contributions were primarily related to a \$18.6 million increase in federal grants and a \$9.5 million increase in PTF contributions for the Central Mesa project.

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, 2013 and 2012

	2013	2012	Change	Percent Change
Operating revenues:				
Contributions from Member Cities	\$ 11,614,615	\$ 14,274,817	\$ (2,660,202)	-18.6%
Passenger Fares	12,791,801	11,889,930	901,871	7.6%
FTA Operating Grants	5,382,997	3,614,541	1,768,456	48.9%
Other Revenues	1,252,967	1,225,206	27,761	2.3%
Operating revenues	<u>31,042,380</u>	<u>31,004,494</u>	<u>37,886</u>	<u>0.1%</u>
Operating expenses:				
Administrative	8,287,393	8,201,127	86,266	1.1%
Passenger Operations Service	28,711,628	28,909,661	(198,033)	-0.7%
Depreciation	38,978,409	39,115,165	(136,756)	-0.3%
Operating expenses	<u>75,977,430</u>	<u>76,225,953</u>	<u>(248,523)</u>	<u>-0.3%</u>
Operating income (loss)	(44,935,050)	(45,221,459)	286,409	-0.6%
Non-operating revenues (expense)	<u>(8,283,802)</u>	<u>(1,995,774)</u>	<u>(6,288,028)</u>	<u>315.1%</u>
Deficiency before Capital Contributions	(53,218,852)	(47,217,233)	(6,001,619)	12.7%
Capital Contributions	59,775,988	27,711,027	32,064,961	115.7%
Increase (Decrease) in Net Position	6,557,136	(19,506,206)	26,063,342	-133.6%
Net Position, July 1	<u>1,138,866,431</u>	<u>1,158,372,637</u>	<u>(19,506,206)</u>	<u>-1.7%</u>
Net Position, June 30	<u>\$1,145,423,567</u>	<u>\$1,138,866,431</u>	<u>\$ 6,557,136</u>	<u>0.6%</u>

CAPITAL ASSETS AND LONG TERM DEBT

Capital Assets:

The following table provides a breakdown of capital assets of METRO at June 30, 2013, 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, 2013 and 2012**

	2013	2012	Change	Percent Change
Buildings	\$ 87,357,938	\$ 89,921,241	\$ (2,563,303)	-2.9%
Guideway	514,647,312	525,957,876	(11,310,564)	-2.2%
Bridges	52,288,930	54,339,476	(2,050,546)	-3.8%
Operation Control Center	11,339,858	10,363,063	976,795	9.4%
Passenger Stations and Facilities	86,657,467	90,055,798	(3,398,331)	-3.8%
Park and Ride Facilities	28,574,490	31,242,220	(2,667,730)	-8.5%
Electric Power Substations	72,759,869	76,309,385	(3,549,516)	-4.7%
Signal and Communication System	37,590,235	40,015,959	(2,425,724)	-6.1%
Computers and Software	168,000	174,758	(6,758)	-3.9%
Furniture and Fixtures	-	74,243	(74,243)	-100.0%
Site Improvements	12,611	-	12,611	100.0%
Revenue Vehicles	179,490,100	186,620,009	(7,129,909)	-3.8%
Non-Revenue Vehicles	813,139	731,731	81,408	11.1%
Equipment	7,137,540	8,461,421	(1,323,881)	-15.6%
Construction in Progress	114,288,418	44,410,295	69,878,123	157.3%
Net Capital Assets	\$ 1,193,125,907	\$ 1,158,677,475	\$ 34,448,432	3.0%

As of June 30, 2013, METRO had \$1,193 million in capital assets, net of accumulated depreciation. There was a net increase in capital assets, of \$34.4 million from June 30, 2012; primarily resulting from an increase to construction in progress of \$69.9 million for the Central Mesa and Northwest Extension LRT Projects offset by the annual depreciation charge of \$39.0 million for the Light Rail System infrastructure. Refer to Note 5 on page 18 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 2013, METRO made the third \$10.0 million scheduled payment under the lease. The capital lease obligation at June 30, 2013 includes \$12,186,000 of remaining principal and \$13,346,692 accrued interest totaling \$25,532,692. Refer to Note 8 on page 19 for more information regarding the capital lease.

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 2013, the City of Phoenix advanced \$37,914,519 to cover the project expenses. Refer to Note 9 on page 20 for more information regarding the funding agreement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

METRO's adopted fiscal year 2014 total operating and capital budget is \$202.0 million, up \$23.2 million from fiscal year 2013's amended Budget. The primary cause for the increase is within the capital budget; with the 14 LRV Capital Lease interest payment (\$15.9M) coming due this year; increases to the construction activities for the Northwest Extension (\$6.7M) and Central Mesa (\$3.2M) LRT projects and related Concurrent Non Project Activities (CNPAs) (\$7.4M). In addition, design and real estate activities commence for the Gilbert Road LRT Project (\$4.2M). Offsetting the increases are reductions to budgets for the South Tempe Streetcar (\$9.2M) related to delays in federal funding approvals and Systemwide Improvements (\$3.2M) with a reduced OMC Solar project scope.

On the operating side, METRO's FY14 budget is \$44.8 million, down \$2.1 million versus fiscal year 2013 with budgets reflecting cost improvements realized and reductions in planning project work scope.

**Comparison of Annual Expenditure Budgets
Fiscal Year 2014 vs. 2013**

<u>Uses of Funds</u>	<u>FY 2014 Adopted (\$,000)</u>	<u>FY 2013 Amended (\$,000)</u>	<u>Change (\$,000)</u>
Operating Activities:			
Revenue Operations	34,236	35,293	(1,057)
Future Project Development	9,741	10,610	(869)
Agency Operating Budget	826	1,010	(184)
	<u>44,803</u>	<u>46,913</u>	<u>(2,110)</u>
Capital Projects:			
20-Mile METRO Initial Segment	-	2,550	(2,550)
Northwest Extension	43,672	37,003	6,669
Non-Prior Rights Utilities Relocations	11,756	10,813	943
Other Capital Projects:			-
Central Mesa Extension	54,580	51,425	3,155
Gilbert Road Capital Project	4,177	-	4,177
South Tempe Streetcar	4,047	13,324	(9,277)
CNPAs - Mesa Extension	2,581	2,526	55
CNPAs - Northwest Extension	7,349	-	7,349
Systemwide Improvements	5,695	8,892	(3,197)
14 LRV's Interest	15,897	-	15,897
Subtotal Capital before Debt Service	<u>149,754</u>	<u>126,533</u>	<u>23,221</u>
Capital Project Debt Service:			
Debt Service - Interest	4,508	2,594	1,914
Debt Service - Principal	2,980	2,771	209
Total Uses of Funds	<u>202,045</u>	<u>178,810</u>	<u>23,234</u>

In fiscal year 2014 METRO will commence design work on the Gilbert Road Extension. Expenses during the year are anticipated to reach \$4.2 million pending necessary approvals from federal funding sources to enter preliminary engineering activities.

FINANCIAL CONTACT

The financial report is designed to provide a general overview of METRO's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to METRO's 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, 2013

Assets

Current Assets:	
Cash and Investments	\$ 12,347,528
Receivables, Net	314,043
Due from Other Governments	49,504,075
Inventory	14,802,794
Other Assets	331,660
Total Current Assets	<u>77,300,100</u>
Noncurrent Assets:	
Capital Assets, not being depreciated	114,288,418
Capital Assets, net of accumulated depreciation	1,078,837,489
Total Noncurrent Assets	<u>1,193,125,907</u>
Total Assets and Other Debits	<u>1,270,426,007</u>

Liabilities

Current Liabilities:	
Accounts Payable	28,104,112
Labor Compliance Withholding	21,903
Other Accrued Expenses	148,079
Compensated Absences	606,840
Capital Lease Obligation - Current portion	12,186,000
Insurance Reserves	503,764
Due to Other Governments	15,038,439
Unearned Revenue	1,085,212
Member Cities Deposits	15,629,216
Total Current Liabilities	<u>73,323,565</u>
Noncurrent Liabilities:	
Compensated Absences	371,776
Northwest Extension Advance Funding Obligation	37,914,519
Interest payable	13,392,580
Total Noncurrent Liabilities	<u>51,678,875</u>
Total Liabilities and Other Credits	<u>125,002,440</u>

Net Position

Net Investment in Capital Assets	1,143,025,388
Unrestricted	2,398,179
Total Net Position	<u>\$ 1,145,423,567</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, 2013**Operating Revenues:**

Contributions from Member Cities	\$ 11,614,615
Passenger Fares	12,791,801
Receipts from Federal Operating Grants	5,382,997
Other Revenues	1,252,967
Total Operating Revenues	<u>31,042,380</u>

Operating Expenses:

Administrative	8,287,393
Passenger Operations Service	28,711,628
Depreciation	38,978,409
Total Operating Expenses	<u>75,977,430</u>

Operating Income (Loss) (44,935,050)

Non-Operating Revenue / (Expense):

Federal Transit Administration Planning Grants	799,020
Public Transportation Funds	10,111,118
Private Utilities Relocations	(5,500,205)
Capital Conveyance to Member Cities	(11,487,566)
Interest on Capital Funding Obligations	(2,230,691)
Other Non-Operating Income	24,522
Total Non-Operating Revenue / (Expense)	<u>(8,283,802)</u>

Deficiency Revenues under Expenses (53,218,852)

Capital Contributions:

Capital Contributions from Member Cities	4,268,007
Public Transportation Funds Capital	27,765,958
Federal Transit Administration Capital Grants	27,742,023
Total Capital Contributions	<u>59,775,988</u>

Changes in Net Position 6,557,136

Net Position, Beginning of Period 1,138,866,431

Net Position, End of Period \$ 1,145,423,567

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, 2013

Cash Flows from Operating Activities	
Receipts from Member Cities	\$ 11,953,600
Receipts from Federal Operating Grants	3,163,620
Receipts from Fare Revenues	12,791,801
Other Revenues	1,274,281
Payments for Payroll Related Expenses	(12,082,752)
Payments to Suppliers	(29,403,888)
Net Cash Used in Operating Activities	<u>(12,303,338)</u>
Cash Flows from Non-Capital Financing Activities	
Receipts from FTA Non-Capital Grants	680,618
Receipts from Regional Public Transit Authority	5,123,449
Other Non-Operating Income	24,522
Payments for Concurrent Non Project Activities	(1,826,267)
Payments for Private Utility Relocations	(611,382)
Capital Conveyance to Member Cities	(11,487,566)
Net Cash Used in Non-Capital Financing Activities	<u>(8,096,626)</u>
Cash Flows from Capital and Related Financing Activities	
Capital Contributions from Member Cities	1,941,361
Receipts from FTA Capital Grants	26,306,732
Receipts from Regional PTF for Capital	15,936,535
Capital Lease Funding	(10,000,000)
Northwest Ext Advance Funding Obligation	37,914,519
Payments for Capital Assets	(54,045,814)
Net Cash Provided by Capital and Related Financing Activities	<u>18,053,333</u>
Net Decrease in Cash and Cash Equivalents	(2,346,631)
Cash and Cash Equivalents, Beginning of Year	14,694,159
Cash and Cash Equivalents, End of Year	<u>\$ 12,347,528</u>
Reconciliation of Operating Income (Loss) to Net Cash Used In Operating Activities	
Operating Income (Loss)	\$ (44,935,050)
Adjustments to Reconcile Operating Income to Net Cash Used in Operating Activities:	
Depreciation	38,978,409
(Increase) Decrease in Assets:	
Accounts Receivable	190,358
Due from Other Governments	(7,550,665)
Inventory	(763,873)
Other Assets	146,724
Increase (Decrease) in Liabilities:	
Accounts Payable	831,321
Compensated Absences	125,358
Other Accrued Expenses	(67,210)
Due to Other Governments	227,730
Unearned Revenue	21,314
Member Cities' Deposits	492,247
Net Cash Used in Operating Activities	<u>\$ (12,303,338)</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, 2013, the Entity implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 establishes reporting guidance for certain elements of the financial statements which are distinct from assets and liabilities.

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 connection 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.

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2013

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	7-15
Furniture and Fixtures	7-15
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:

- 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 modified accrual basis. Encumbrance accounting is not used and all appropriations lapse at year end. Depreciation expense is not included in the annual budget. Prior to final adoption, a proposed budget is presented to the Board of Directors for review and public comment is received. Final adoption of the budget must be on or before June 30 of each year.

During the fiscal year, the Board of Directors modified the original budget. A schedule of actual operating revenues and expenses versus original budget and final budget is presented as supplementary information. See Page 23.

3. Cash and Investments

Cash deposits and investments at June 30, 2013, consisted of the following:

Cash on Hand and in Bank	\$ 11,597,975
Insurance Trust Fund	749,553
Total Cash and Investments	<u>\$ 12,347,528</u>

METRO has deployed Ticket Vending Machines (TVM's) which contain coin and bill vaults to accommodate the purchase of fares. At June 30, 2013, the total cash contained in the coin and bill vaults totaled \$154,662.

METRO's bank deposits at June 30, 2013, had a carrying value of \$11,443,313 and the bank ledger balance was \$11,728,920. The difference of \$285,607 represents deposits in transit and outstanding checks. Through December 31, 2012, all of METRO's bank deposits were covered under the Dodd-Frank Wall Street Reform and Consumer Protection Act. After January 1, 2013, of the bank balance, \$250,000 is covered by federal depository insurance and \$11,478,920 is covered by securities held by the pledging financial institution in METRO's name.

The Self Insurance Reserve Trust Account totaling \$749,553 was covered by collateral held by the pledging financial institution in METRO's name.

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

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 2013 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, 2013, METRO maintains all available cash in these accounts.

4. Accounts Receivable and Due From Other Governments

All receivable balances at June 30, 2013 are displayed on the financial statements and are expected to be collected in full; therefore, an allowance for uncollectibles has not been recorded.

Due from other governments consists of Federal receivables (\$24.8 million) due from the City of Phoenix as Grantee of Federal Funds, PTF receivable (\$19.3 million) due from Regional Public Transportation Authority (RPTA), project funding receivables due from cities of Phoenix and Mesa (\$3.3 and \$2.0 million respectively) and miscellaneous receivables (\$0.2 million).

City of Phoenix (Grantee of Federal Funds)	\$ 24,830,738
Public Transportation Funding	19,254,129
City of Mesa	1,954,428
City of Phoenix	3,258,707
City of Tempe	4,190
Arizona State University	7,355
Maricopa Association of Governments	194,528
Total Due from Other Governments	<u>\$ 49,504,075</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, 2013

5. Capital Assets

Capital asset and construction in progress activity for the year ended June 30, 2013 were as follows:

	<u>Balances, July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances, June 30, 2013</u>
Nondepreciable assets:				
Construction in progress	\$ 44,410,295	\$ 70,020,323	\$ (142,200)	\$ 114,288,418
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	11,731,770	1,371,664		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	1,689,873	140,361	(45,039)	1,785,195
Furniture and Fixtures	1,138,274			1,138,274
Revenue Vehicles	219,803,204	1,663,390		221,466,594
Non-Revenue Vehicles	2,075,910	323,485	(20,382)	2,379,013
Site Improvements	-	12,825		12,825
Equipment	13,387,838	36,993	(33,425)	13,391,406
Total depreciable assets at historical cost	<u>1,258,621,873</u>	<u>3,548,718</u>	<u>(98,846)</u>	<u>1,262,071,745</u>
Less accumulated depreciation for:				
Buildings	(12,610,865)	(2,563,303)	-	(15,174,168)
Guideway	(39,570,351)	(11,310,564)		(50,880,915)
Bridges	(7,176,912)	(2,050,546)		(9,227,458)
Operation Control Center	(1,368,707)	(394,869)		(1,763,576)
Passenger Stations and Facilities	(11,894,152)	(3,398,332)		(15,292,484)
Park and Ride Facilities	(8,773,719)	(2,667,729)		(11,441,448)
Electric Power Substations	(12,428,534)	(3,549,517)		(15,978,051)
Signal and Communication System	(8,498,516)	(2,425,724)		(10,924,240)
Computers and Software	(1,515,115)	(147,118)	45,039	(1,617,194)
Furniture and Fixtures	(1,064,031)	(74,243)		(1,138,274)
Site Improvements	-	(214)		(214)
Revenue Vehicles	(33,183,195)	(8,793,299)		(41,976,494)
Non-Revenue Vehicles	(1,344,179)	(242,077)	20,382	(1,565,874)
Equipment	(4,926,417)	(1,360,874)	33,425	(6,253,866)
Total accumulated depreciation	<u>(144,354,693)</u>	<u>(38,978,409)</u>	<u>98,846</u>	<u>(183,234,256)</u>
Total capital assets being depreciated	1,114,267,180	(35,429,691)	-	1,078,837,489
Business-type activities, capital assets, net	<u>\$ 1,158,677,475</u>	<u>\$ 34,590,632</u>	<u>\$ (142,200)</u>	<u>\$ 1,193,125,907</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, 2013 follows:

City of Chandler	\$	44,606
City of Glendale		64,127
City of Mesa		624,229
City of Peoria		92,288
City of Phoenix		10,810,051
City of Tempe		3,993,915
	\$	<u>15,629,216</u>

7. Operating Leases

METRO leases office space and small office equipment under various operating lease agreements. Total rent expenditures for these leases were \$1,331,733 for the fiscal year ended June 30, 2013. Future minimum lease payments under non-cancelable operating leases are as follows:

	<u>Year Ending June 30, 2013</u>	
2014	\$	1,317,927
2015		1,329,664
2016		1,343,367
2017		14,880
	\$	<u>4,005,838</u>

8. Capital Lease Obligation

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

Asset:		
Spare Parts	\$	1,635,840
Revenue Vehicles		40,095,208
Less Accumulated Depreciation		(7,217,137)
Total	\$	<u>34,513,911</u>

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

Valley Metro Rail, Inc.
Notes to the Financial Statements (Continued)
Fiscal Year Ended June 30, 2013

The following table presents the changes in the capital lease obligation for fiscal year 2013:

	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>	<u>Amount Due in One Year</u>
Capital Lease Obligation	\$ 22,186,000	\$ -	\$ (10,000,000)	\$ 12,186,000	\$ 12,186,000

Acceptance of the LRVs commenced the term of this agreement and obligated rent payments totaling approximately \$56,752,000. The third \$10,000,000 payment was made June 1, 2013, with succeeding payments due per the following schedule:

Schedule of Capital Lease Payable as of June 30, 2013

<u>Year ending June 30</u>	<u>Principal Payments</u>	<u>Principal Remaining</u>	<u>Interest*</u>	<u>Total Obligation</u>
2013	\$ 10,000,000	12,186,000	13,346,692	\$ 25,532,692
2014	12,186,000	-	1,219,812	
	<u>\$ 22,186,000</u>	<u>-</u>	<u>\$ 14,566,504</u>	

* Interest shown is accrued to date and future amounts payable

For Fiscal Year 2013, Capital Lease interest expense totaling \$2,184,804 was accrued under the Master Lease Agreement generating a total accrued interest to date of \$13,346,692. The Capital Lease obligation at June 30, 2013 includes \$12,186,000 principal and \$13,346,692 accrued interest for a total of \$25,532,692.

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 fiscal year 2013, the City of Phoenix advanced \$37,914,519 to cover the project expenses.

Schedule of Advance Funding Obligation Payable as of June 30, 2013

<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	190,238	
2015	-	-	383,260	
2016	-	-	581,999	
2017	60,000,000	-	789,529	
	<u>\$ 60,000,000</u>	<u>\$ 60,000,000</u>	<u>\$ 1,990,913</u>	*

* Interest shown is accrued to date and future amounts payable

For Fiscal Year 2013, Capital Lease interest expense totaling \$45,887 was accrued under the Project Funding Agreement. The Advance Funding obligation at June 30, 2013 includes \$37,914,519 principal and \$45,887 accrued interest for a total of \$37,960,406.

10. Compensated Absences

The following presents the changes in compensated absences for the fiscal year ended June 30, 2013:

	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
Compensated absences	\$ 853,258	\$ 726,972	\$ (601,614)	\$ 978,616

The portion of compensated absences payable within one year is \$606,840.

11. Due to Other Governments

METRO receives employee services as well as Public Transportation Funds for capital project planning, design and construction from RPTA. As of June 30, 2013 METRO owed to RPTA \$1,377,267 for payroll and fringe benefits and \$13,661,172 for federal grant reimbursements for a total of \$15,038,439.

Payroll and Fringe Benefits	\$ 1,377,267
Federal Grant Reimbursements	13,661,172
Total Due to RPTA	<u>\$ 15,038,439</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, 2013, METRO had remaining contractual commitments for these services aggregating approximately \$248.8 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, 2013, METRO entered into approximately \$10.0 million additional contractual commitments.

<u>Contractor</u>	<u>Commitment</u>	<u>Spent-to-date</u>	<u>Remaining</u>
Valley Transit Constructors - Central Mesa	114,256,430	33,019,918	81,236,512
Scheidt Bachmann - Fare Collection System	8,457,368	8,341,892	115,476
Allied Barton Security Services	8,685,408	1,949,734	6,735,674
City of Mesa Admin and Real Estate Services	11,231,000	5,795,653	5,435,347
Various - Public Art Program	2,117,380	392,500	1,724,880
Alternative Concepts - Transportation Operations	55,030,505	45,153,140	9,877,365
Various - Operations & Maintenance	17,754,299	14,159,804	3,594,495
Various - Misc. Construction and Services	11,710,303	9,508,342	2,201,961
Various - Future Extensions	24,761,700	18,094,036	6,667,664
Sundt Stacey/Witbeck JV	159,142,890	33,191,924	125,950,966
AECOM	3,896,324	1,650,827	2,245,497
Various - NW Ext. Program Management	1,761,634	1,056,029	705,605
Various - Central Mesa Ext. Program Management	10,782,566	8,426,070	2,356,496
	<u>\$ 429,587,807</u>	<u>\$ 180,739,869</u>	<u>\$ 248,847,938</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 44 and Note 15-Related Party Transactions.

METRO has received notice of general liability claims related to its operations. METRO's commercial insurance policies provide coverage against losses rising from the claims subject to policy deductible amounts. Such claims are evaluated and specific reserves are established to cover METRO's contingent risk of loss pending settlement with the parties involved. At June 30, 2013 the Reserve for General Liability Claims totaled \$503,764.

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 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, 2012 through June 30, 2013, METRO incurred costs of \$12,435,840 for services provided by RPTA.

In September 2010, the METRO Board authorized the Chief Executive Officer (CEO) to enter into a sublease with the Regional Public Transportation Authority (RPTA) for a portion of the office space currently leased and occupied by METRO. Commencing in December 2010 and ending in June 2016, office space lease costs that METRO pays monthly to the landlord will be prorated and charged to RPTA based on square footage used by RPTA. The total sublease over the 66-month period is estimated to equal \$3,167,304. As of June 30, 2013, the remaining lease payments under the sublease agreement total \$1,779,081.

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 the METRO's contribution rate. For the year ended June 30, 2013, active plan members and METRO were each required by statute to contribute at the actuarially determined rate of 11.14 percent (10.25 percent retirement, 0.65 percent health plan, and 0.24 percent long-term disability) of the members' annual covered payroll. METRO's contributions to the System for the years ended June 30, 2013, 2012 and 2011 were \$919,848, \$700,325 and \$542,211 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
2013	\$ 850,488	\$ 49,543	\$ 19,817	\$ 919,848
2012	642,290	42,385	15,650	700,325
2011	495,971	32,478	13,762	542,211

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 2013 totaled \$39,800,820 as summarized in the table below.

Public Transportation Fund Cash Expenditures (LRT Portion)
Fiscal Year ended June 30, 2013

<u>LRT PTF Expenditures:</u>	<u>\$ In Millions</u>
Regional Transportation Plan Projects:	
Central Mesa LRT Extension	19.47
Northwest Extension Phase I	0.09
Tempe Streetcar	0.75
Systemwide Improvements	10.04
Non Prior Rights Utility Relocations:	
Central Mesa LRT Extension	0.09
Northwest Extension Phase I	0.51
Other	
Project Development and Planning	4.08
Debt Service	4.77
<u>Total LRT PTF Cash Expenditures</u>	<u>39.80</u>

In June 2009, the Regional Public Transportation Authority (RPTA) issued Transportation Excise Tax Revenue Bonds in the amount of \$100,075,000. A portion of the bonds will pay or reimburse LRT capital expenditures as designated in the Regional Transportation Plan. As of June 30, 2013, bond expenditures to date for the LRT program totaled \$47,995,058.

A blurred, grayscale photograph of a school bus, likely in motion, serving as a background for the text. The bus is white with a dark stripe and is positioned in the middle ground. The background shows a fence and some trees, all out of focus.

OTHER SUPPLEMENTARY INFORMATION

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



2013 Northwest Extension Groundbreaking Ceremony



Northwest Extension – 19th Avenue Utilities Relocation

Valley Metro Rail, Inc.

 Schedule of Operations - Budget and Actual
 Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Sources of Funds:				
Net Contributions From Member Cities	\$ 49,685,417	\$ 58,468,417	\$ 56,489,382	\$ (1,979,035)
Passenger Fares	11,256,000	11,256,000	12,791,801	1,535,801
Federal Transit Administration Grants	48,786,139	49,815,053	33,924,040	(15,891,013)
TIGGER Private Match	3,300,000	3,300,000	-	(3,300,000)
Public Transportation Funds	53,280,431	54,088,864	30,537,722	(23,551,142)
MAG/RPTA Grants	1,382,000	1,382,000	978,686	(403,314)
Other Revenues	500,000	500,000	771,466	271,466
Total Sources of Funds	<u>168,189,987</u>	<u>178,810,334</u>	<u>135,493,097</u>	<u>(43,317,237)</u>
Uses of Funds:				
Operating Activities:				
Revenue Operations	35,292,962	35,292,962	28,711,628	(6,581,334)
Future Project Development	10,149,994	10,609,994	7,341,105	(3,268,889)
Agency Operations	1,009,967	1,009,967	946,288	(63,679)
Sub Total Operating Activities Use of Funds	<u>46,452,923</u>	<u>46,912,923</u>	<u>36,999,021</u>	<u>(9,913,902)</u>
Capital Projects:				
20-Mile METRO Initial Segment	2,550,000	2,550,000	617,903	(1,932,097)
Northwest Extension	28,680,380	37,003,380	41,057,610	4,054,230
Central Mesa Extension	49,587,697	51,425,044	41,933,892	(9,491,152)
Tempe Streetcar Extension	13,324,058	13,324,058	-	(13,324,058)
Non-Prior Rights Utilities Relocations	10,812,800	10,812,800	5,615,261	(5,197,539)
Systemwide Improvements	8,891,682	8,891,682	1,829,533	(7,062,149)
Concurrent Non Project Activities	2,526,000	2,526,000	2,075,350	(450,650)
Sub Total Capital Before Debt Service	<u>116,372,617</u>	<u>126,532,964</u>	<u>93,129,549</u>	<u>(33,403,415)</u>
Capital Project Debt Service:				
Debt Service - Interest	2,593,481	2,593,481	2,593,561	80
Debt Service - Principal	2,770,966	2,770,966	2,770,966	-
Total Uses of Funds	<u>168,189,987</u>	<u>178,810,334</u>	<u>135,493,097</u>	<u>(43,317,237)</u>
Excess Revenues Over Expenses - Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Explanation of Differences between Budgetary Basis and GAAP Basis

Total Uses of Funds - Budgetary Basis	\$ 135,493,097
Total Operating Expenses - GAAP Basis	75,977,430
Budgetary Operating Expenses in Excess of GAAP Operating Expenses	<u>\$ 59,515,667</u>
Capital Projects Before Debt Service (Budgeted expenses not recorded to expense for GAAP basis)	93,129,549
Capital Projects Debt Service (Budgeted expenses not recorded to expense for GAAP purposes)	5,364,527
Depreciation (GAAP expenses not included in budgetary basis)	(38,978,409)
All Other Adjustments	-
Total Reconciling Items	<u>\$ 59,515,667</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.	31
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 23 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 23) for information regarding revenue bonds issued by RPTA which provide funding for LRT capital expenditures. Refer to Note number 8 Capital Lease Obligation (Page 19) and Note number 9, Northwest Extension Advance Funding Obligation (Page 20) 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.	33
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.	36

Valley Metro Rail, Inc.
Net Position by Component
FY 03/04 through FY 12/13

Business-type activities	FY 03/04	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
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
Guideway	-	-	-	-	-	545,989,800	548,218,379	537,014,911	525,957,875	514,647,312
Bridges	-	-	-	-	-	60,491,115	58,440,569	56,390,023	54,339,476	52,288,930
Operation Control Center	-	-	-	-	-	11,536,240	11,145,181	10,754,123	10,363,064	11,339,858
Passenger Stations & Facilities	-	-	-	-	-	96,272,225	96,296,602	93,454,131	90,055,799	86,657,467
Park and Ride Facilities	-	-	-	-	-	34,769,334	32,504,345	33,909,949	31,242,220	28,574,490
Electric Power Substations	-	-	-	-	-	86,707,115	83,413,644	79,858,902	76,309,385	72,759,869
Signal and Communication System	-	-	-	-	-	45,202,398	44,924,177	42,495,843	40,015,959	37,590,235
Computers & Software	203,648	171,226	108,076	949,273	852,789	574,791	179,859	-	174,758	168,000
Furniture & Fixtures	134,029	113,186	739,880	844,591	692,090	531,100	370,110	209,121	74,243	-
Site Improvements	-	-	-	-	-	-	-	-	-	12,611
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)	10,488	188	188	706,809	646,471	587,896	-	-	-	-
Non-Revenue Vehicles	-	-	-	-	209,605	958,053	733,227	1,056,448	731,731	813,139
Equipment	4,202	2,754	497,319	995,075	1,222,755	8,214,895	9,993,522	9,131,945	8,461,421	7,137,540
Construction in Progress (4)	56,989,473	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
Subtotal Investment in Capital Assets	\$ 57,341,840	\$ 235,905,852	\$ 460,380,300	\$ 773,807,490	\$ 1,083,561,843	\$ 1,181,254,415	\$ 1,172,536,114	\$ 1,153,352,954	\$ 1,136,804,227	\$ 1,143,025,388
Unrestricted	-	-	-	-	-	6,602,251	6,196,414	5,019,683	2,062,204	2,398,179
Total business-type activities net position	\$ 57,341,840	\$ 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

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 the 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, Construction in Progress is shown net of the Northwest Extension Advance Funding Obligation.

Valley Metro Rail, Inc.
Changes in Net Position
FY 03/04 through FY 12/13

	<u>FY 03/04</u>	<u>FY 04/05</u>	<u>FY 05/06</u>	<u>FY 06/07</u>	<u>FY 07/08</u>	<u>FY 08/09</u>	<u>FY 09/10</u>	<u>FY 10/11</u>	<u>FY 11/12</u>	<u>FY 12/13</u>
Operating Revenues										
Contributions from Member Cities (1)	\$ 14,141,126	\$ 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
Passenger Fares						3,371,104	9,256,913	10,238,281	11,889,930	12,791,801
Federal Transit Administration Operating Grants (1)	48,497,109	74,819,942	150,717,452	146,442,055	953,877	-	222,519	240,000	3,614,541	5,382,997
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
Total Operating Revenues	<u>62,638,235</u>	<u>102,512,783</u>	<u>238,090,177</u>	<u>359,636,200</u>	<u>202,545,393</u>	<u>16,901,608</u>	<u>35,547,623</u>	<u>30,817,017</u>	<u>31,004,494</u>	<u>31,042,380</u>
Operating Expenses										
Administration and Planning Services (2)	5,434,775	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
Passenger Operations Service						15,678,389	32,964,701	31,020,111	28,909,661	28,711,628
Private Utilities Relocations	-	-	11,700,029	39,212,754	15,750,886					
Depreciation	117,706	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
Total Operating Expenses	<u>5,552,481</u>	<u>1,137,960</u>	<u>13,716,617</u>	<u>46,311,898</u>	<u>23,378,898</u>	<u>43,395,181</u>	<u>82,190,208</u>	<u>77,410,654</u>	<u>76,225,953</u>	<u>75,977,430</u>
Operating Income (Loss)	<u>57,085,754</u>	<u>101,374,823</u>	<u>224,373,560</u>	<u>313,324,302</u>	<u>179,166,495</u>	<u>(26,493,573)</u>	<u>(46,642,585)</u>	<u>(46,593,637)</u>	<u>(45,221,459)</u>	<u>(44,935,050)</u>
Non-Operating Revenues (Expense)										
Federal Transit Administration Operating Grants						650,492	2,557,861	2,118,259	1,059,848	799,020
Public Transportation Funds						10,945,204	5,484,246	8,678,822	6,469,470	10,111,118
Other Non-Operating Revenues (Expenses)							142,025	160,757	23,491	(11,463,044)
Interest on Investments	943	80,162	100,888	102,888	91,519	-	15	36	-	-
Distributions to Member Cities						(20,078,532)	(106,249,903)	(38,400,636)	(6,664,230)	-
Private Utilities Relocations						(9,518,863)	965,013	(3,732,886)	(56,477)	(5,500,205)
Interest on Capital Funding Obligation						(2,083,503)	(4,167,007)	(2,083,503)	(2,827,876)	(2,230,691)
Total Non-Operating Revenues (Expense)	<u>943</u>	<u>80,162</u>	<u>100,888</u>	<u>102,888</u>	<u>91,519</u>	<u>(20,085,202)</u>	<u>(101,267,750)</u>	<u>(33,259,151)</u>	<u>(1,995,774)</u>	<u>(8,283,802)</u>
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
Contributions from Member Cities						25,381,955	31,156,572	2,651,494	330,700	4,268,007
Public Transportation Funds Capital						52,627,944	45,043,704	49,586,095	18,255,237	27,765,958
Donated Engineering (3)	-	77,109,027	-	-	-	-	-	-	-	-
Increase (Decrease) in Net Position	<u>\$ 57,086,697</u>	<u>\$ 178,564,012</u>	<u>\$ 224,474,448</u>	<u>\$ 313,427,190</u>	<u>\$ 309,754,353</u>	<u>\$ 104,294,823</u>	<u>\$ (9,124,138)</u>	<u>\$ (20,359,891)</u>	<u>\$ (19,506,206)</u>	<u>\$ 6,557,136</u>

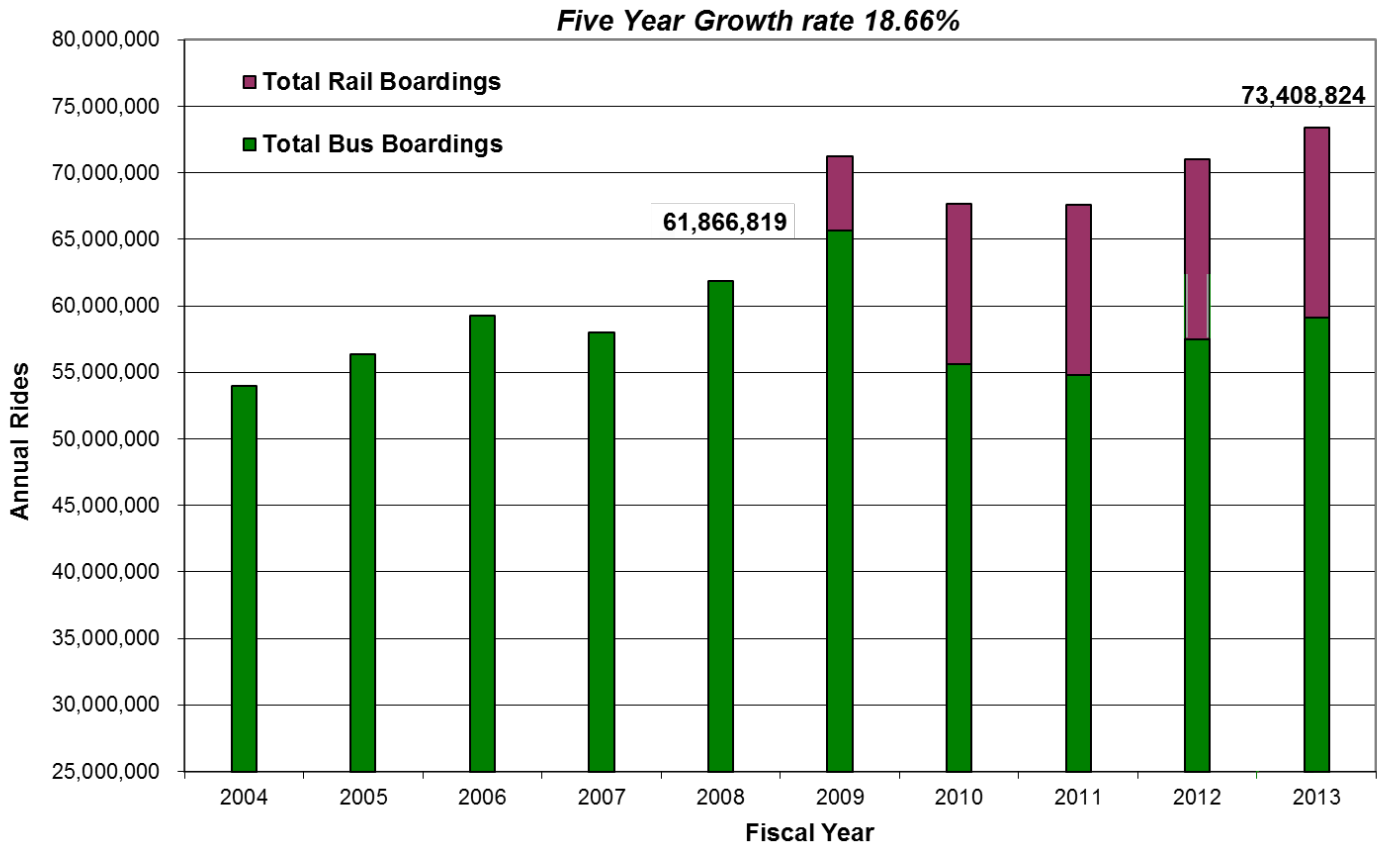
Source: Valley Metro Rail, Inc Finance Division

- (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>
2004	54,013,410	7.34%
2005	56,358,335	4.34%
2006	59,253,904	5.14%
2007	58,020,189	-2.08%
2008	61,866,819	6.63%
2009	71,251,664	15.17%
2010	67,693,003	-4.99%
2011	67,607,530	-0.13%
2012	71,043,488	5.08%
2013	73,408,824	3.33%

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

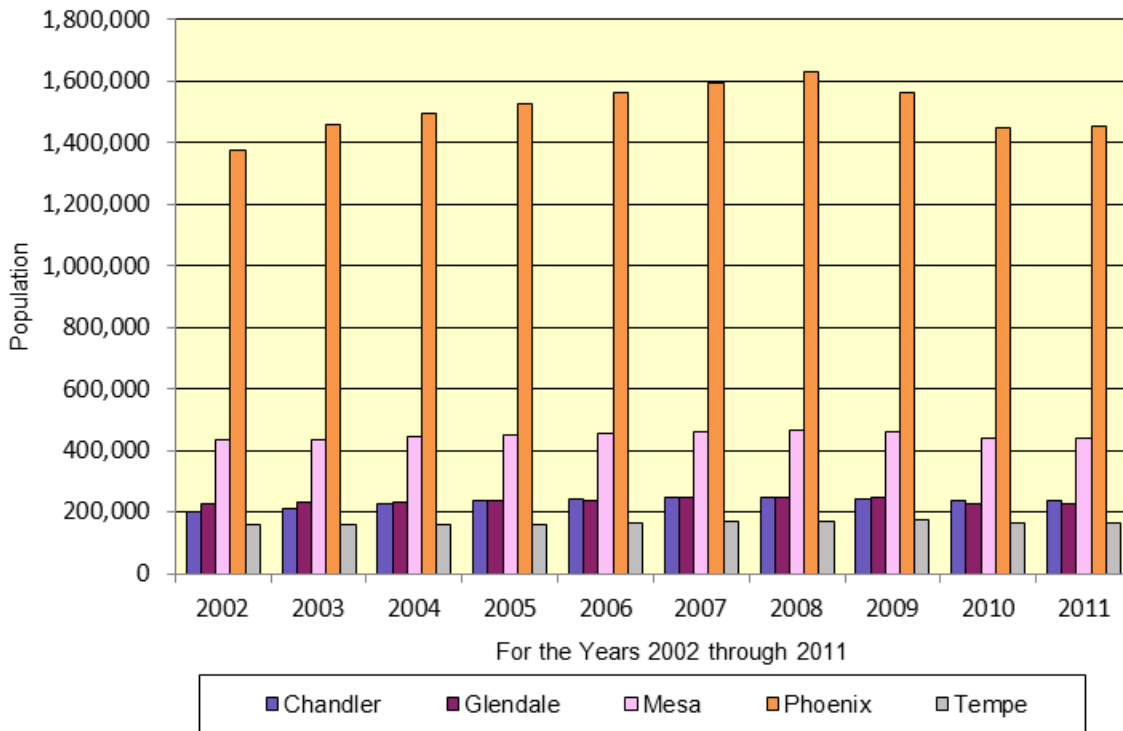


Source: Regional Public Transportation Authority

Valley Metro Rail, Inc.
Population Growth
Ten Years from 2002 to 2011

<u>Year</u>	<u>Chandler</u>	<u>Glendale</u>	<u>Mesa</u>	<u>Phoenix</u>	<u>Tempe</u>
2002	201,263	227,614	431,874	1,375,906	159,425
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	241,214	229,008	444,856	1,464,727	164,659

Valley Metro Rail, Inc.
Member Cities' Population Growth

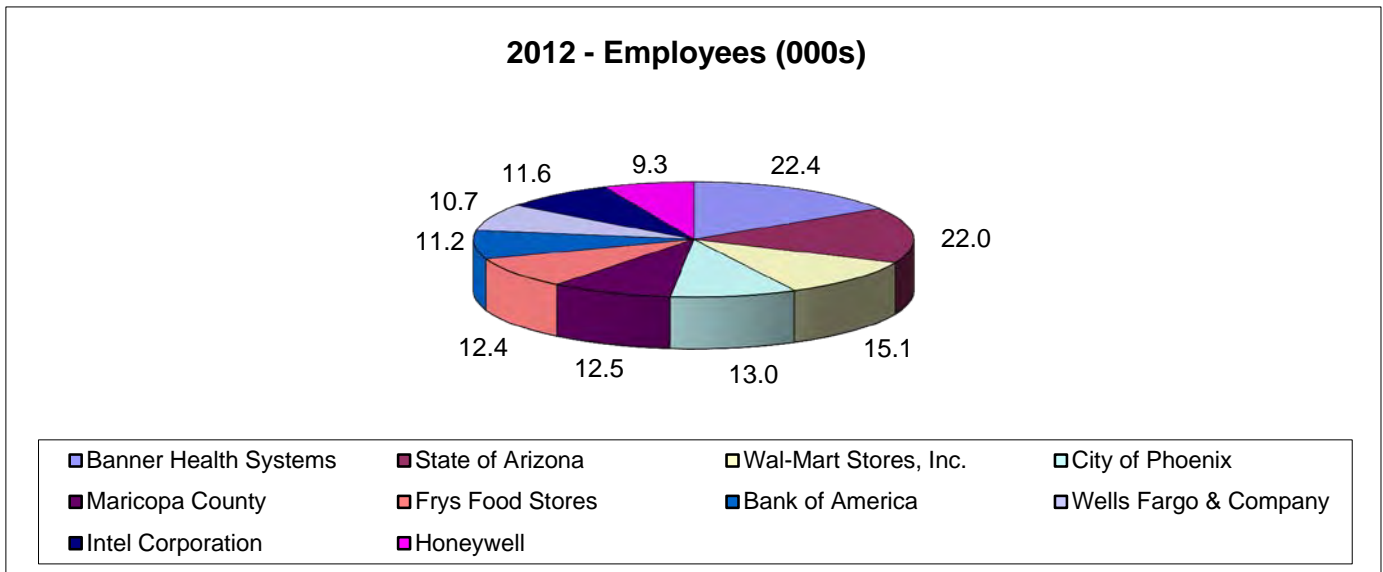


Source: Maricopa Association of Governments

Year 2011 is the most current year available.

Valley Metro Rail, Inc.
Top Employers in Maricopa County
 For the Year 2012

Employer	2012		
	Employees	Rank	% of Total
Banner Health Systems	22,400	1	1.54%
State of Arizona	22,000	2	1.52%
Wal-Mart Stores, Inc.	15,100	3	1.04%
City of Phoenix	13,000	4	0.90%
Maricopa County	12,500	5	0.86%
Frys Food Stores	12,400	6	0.85%
Intel Corporation	11,600	7	0.80%
Bank of America	11,200	8	0.77%
Wells Fargo & Company	10,700	9	0.74%
Honeywell	9,300	10	0.64%
Total for Principal Employers	140,200		9.66%
 Total Employment in Maricopa Cty	 1,451,500		



Source: Maricopa County Association of Governments, Employer Database (2012)
 Arizona Department of Administration, Current Employment Statistics (CES)
 Phoenix Business Journal Book of Lists

NORTHWEST PHASE I



valleymetro.org/northwest

LIGHT RAIL EXTENSION TO DUNLAP AVENUE

REPORT CARD

SEPTEMBER 2013

PROJECT DESCRIPTION

The 3.2-mile Northwest Phase I project extends light rail north from the current end-of-line to Dunlap Avenue by late 2015/early 2016. It consists of three stations and a park-and-ride on the southwest corner of 19th Avenue and Dunlap. 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 largely transit-dependent community and connectivity with 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

Construction

- Contractor recently completed the water transmission main and is currently working on the water distribution main.
- Contractor is continuing to work on the installation of advanced utilities along the corridor.

Community Relations

- Community Advisory Board gave 100% rating to contractor for the months of July and August.
- Continue to respond to stakeholder questions and concerns.
- Ongoing efforts to promote METRO Max program with local community groups.

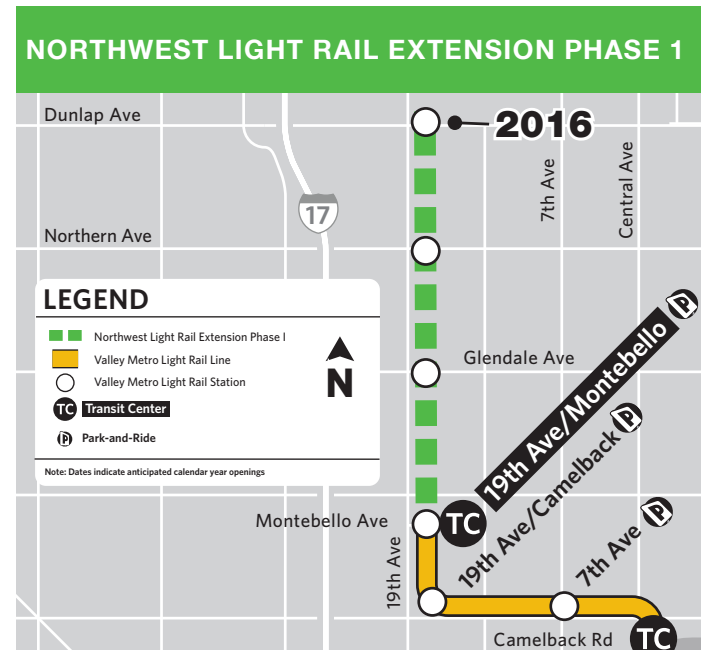
Right of Way

- 168 out of 174 parcels have been acquired.

Utilities

- Southwest Gas has completed installation and testing of new gas main between Glendale Ave./Bethany Home Rd.
- Third party utility relocation work is currently underway.

ROUTE MAP



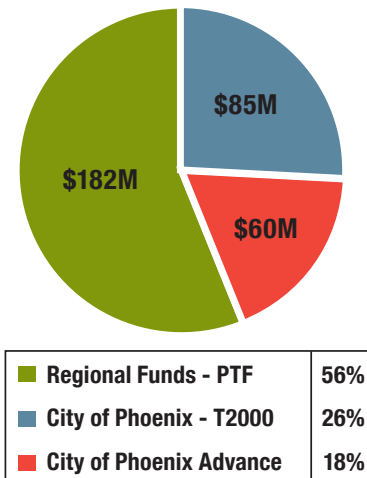
BUDGET

Description	Programmed	Expended	% Expended	Forecast
Construction	\$150,725,627	\$36,492,009	24.2%	\$150,725,627
Utilities	\$31,791,360	\$9,609,074	30.2%	\$31,791,360
Right of Way	\$76,374,576	\$66,854,938	87.5%	\$76,374,576
Public Art	\$951,239	\$243,500	25.6%	\$951,239
Design/Management	\$66,749,098	\$32,364,714	48.5%	\$66,749,098
TOTAL	\$326,591,900	\$145,564,234	44.6%	\$326,591,900

SCHEDULE

Description	Baseline	Current	% Complete
Construction	07-25-2016	07-25-2016	28.1%
Utilities	06-30-2014	06-30-2014	33.3%
Right of Way	10-30-2013	10-30-2013	90.8%
Public Art	11-30-2015	11-30-2015	25.6%
Design/Management	07-30-2014	07-30-2014	49.7%

FUNDING (\$M) – TOTAL \$327M



CENTRAL MESA



valleymetro.org/centralmesa

LIGHT RAIL EXTENSION

REPORT CARD

SEPTEMBER 2013

PROJECT DESCRIPTION

The 3.1-mile Central Mesa project extends light rail east from the current end-of-line through downtown Mesa to Mesa Drive by late 2016. It consists of three stations and a park-and-ride on the northeast corner of Main Street and Mesa Drive. 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 Hall, special events and activities in adjacent downtown centers in Tempe and Phoenix.



UPDATE

Construction

- Construction work has been prioritized to complete sidewalk ramps, electrical and traffic signal systems in downtown area prior to September 30.
- Final relocation of the water mains has been completed.
- Continuing work on paver installation and hardscaping along corridor.

Community Relations

- Community Advisory Board gave 90% rating to contractor for the months of July and August.
- Partnered with Motorcycles on Main and Downtown Mesa Association for a fundraiser dedicated to the families of the Yarnell firemen.
- Continue to respond to stakeholder questions and concerns.

Right of Way

- 120 out of 122 parcels have been acquired.

Utilities

- Private utility work completed at Hobson, Edgemont and Longmore.
- In the process of acquiring CenturyLink Public Facility Utility Easement.
- Received permits for third party utility work.
- SRP began irrigation work at northeast corner of Main St./Alma School Rd.
- All SRP pipe replacement and paving has been completed.
- Currently working on sewer, gas, waterline and storm drainage.

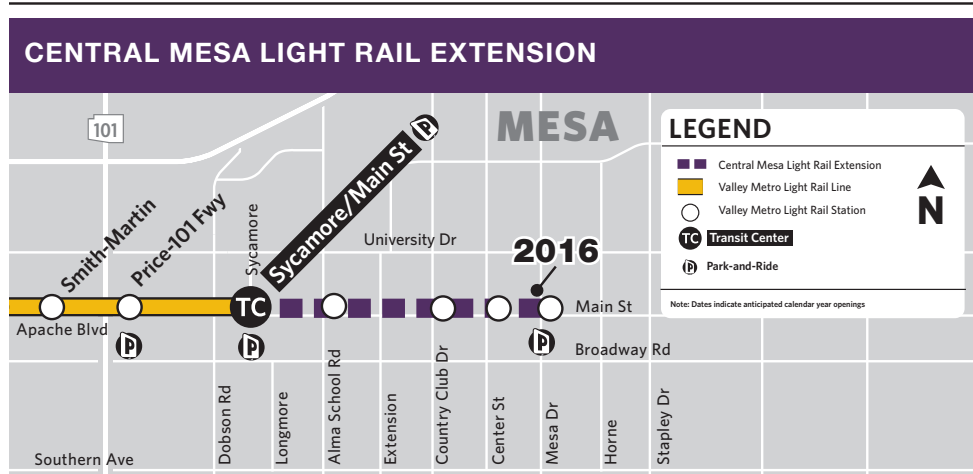
BUDGET

Description	Programmed	Expended	% Expended	Forecast
Construction	\$94,100,000	\$34,714,695	31.3%	\$94,100,000
Utilities	\$16,900,000	\$224,160	3.2%	\$16,900,000
Right of Way	\$16,800,000	\$13,967,877	93.7%	\$16,800,000
Public Art	\$1,200,000	\$149,000	12.7%	\$1,200,000
Design/Management	\$70,000,000	\$19,657,409	30.2%	\$70,000,000
TOTAL	\$199,000,000	\$68,713,140	34.5%	\$199,000,000

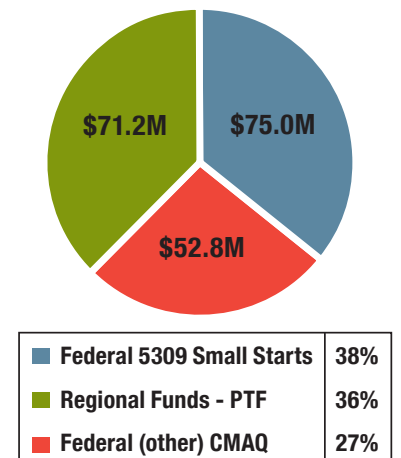
SCHEDULE

Description	Baseline	Current	% Complete
Construction	08-01-2015	03-04-2015	32.0%
Utilities	04-08-2015	04-08-2015	55.0%
Right of Way	07-15-2013	10-23-2013	95.0%
Public Art	04-30-2015	04-30-2015	12.7%
Design/Management	05-29-2015	05-29-2015	31.0%

ROUTE MAP



FUNDING (\$M)—TOTAL \$199M



TEMPE STREETCAR



valleymetro.org/tempestreetcar

REPORT CARD

SEPTEMBER 2013

PROJECT DESCRIPTION

The 2.6-mile Tempe Streetcar project provides enhanced mobility within central Tempe along the Mill Avenue corridor and on Rio Salado Parkway and/or Apache Boulevard. Route modifications are being reviewed. It will consist of several stop locations and will complement existing bus, light rail and neighborhood circulator service by 2017.

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

- Evaluating route options in terms of cost, ridership, land use and economic development potential.
- Held stakeholder meetings to solicit input from the community on the route options.
- Project is being used to test a national transit forecasting model (STOPS) by FTA. This project was selected by FTA as one of four in the country to test the new model before release.

BUDGET

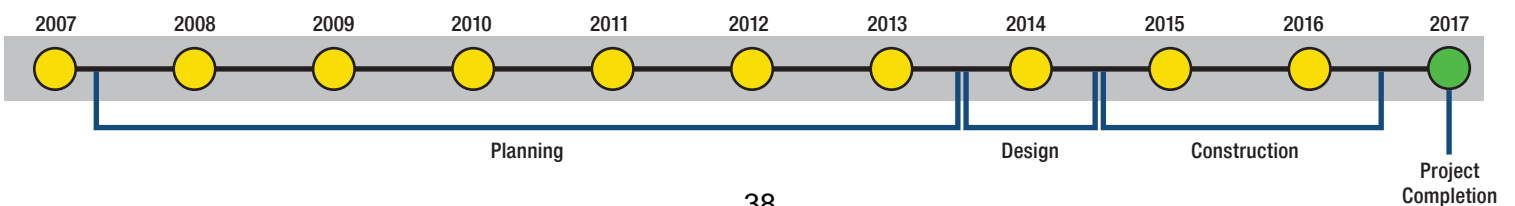
	Programmed*	Expended**
Project Development	\$9,900,000	\$6,724,343
Final Design	\$7,700,000	\$0
Construction	\$116,800,000	\$0
TOTAL	\$134,400,000	\$6,724,343

*Does not include financing cost.
**Estimated as of September 30, 2013.

ROUTE MAP



SCHEDULE



CAPITOL / I-10 WEST



valleymetro.org/capitolwest

LIGHT RAIL EXTENSION

REPORT CARD

SEPTEMBER 2013

PROJECT DESCRIPTION

The 11-mile Capitol/I-10 West project will extend light rail from downtown Phoenix through the State Capitol area to approximately 79th Avenue and the I-10 West 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, school and their community. It will also connect to major employment centers such as the State Capitol and help ease congestion on the I-10 West freeway.

UPDATE

- Completed analysis of existing traffic conditions (i.e. lanes and traffic volumes).
- Assessed the buildings along the alignment to determine if they are eligible to be included on the National Register of Historic Places.
- Completed a draft design of the alternative access area at McDowell Road and I-17.
- Identified potential locations of traction power substations along the alignment.
- Prepared a memo identifying the number of parking spaces that are required at each park-and-ride lot.

BUDGET

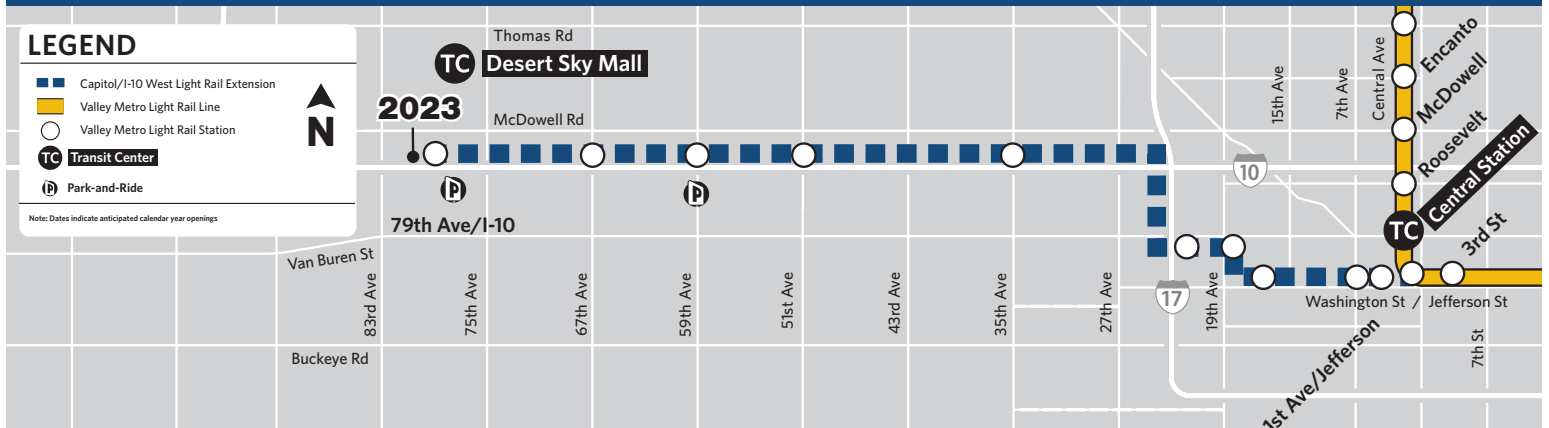
	Programmed*	Expended**
Project Development	\$39,500,000	\$6,624,387
Final Design	\$56,200,000	\$0
Construction	\$1,020,100,000	\$0
TOTAL	\$1,115,800,000	\$6,624,387

*Does not include financing cost.

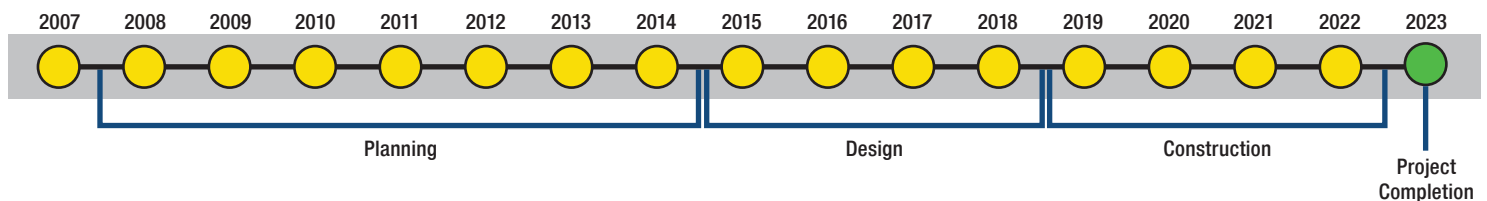
**Estimated as of September 30, 2013.

ROUTE MAP

CAPITOL/I-10 WEST LIGHT RAIL EXTENSION



SCHEDULE



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
I	Cleaner	0	0	11	9
III	Administrative Support Assistant	1	1	1	0.5
	LRV Yard Operator	0	0	2	2
	Store Clerk	0	0	2	2
IV	Accounting Technician	1	1	1	1
	Administrative Assistant	6	6	8	8
	Lead Document Control Clerk	1	1	1	1
	LRV Inspector	0	0	8	9
	Materials Handler	1	1	1	1
VI	LRV Maintenance Technician I	0	0	6	11
	Paralegal	1	1	1	1
	Track Maintainer	6	6	6	6
VII	Accountant I	2	2	2	2
	Contract Specialist	0	0	0	1
	Executive Assistant	2	2	2	2
	Help Desk Support Specialist	0	0	1	1
	LRV Maintenance Technician II	0	0	11	10
	Network Support Analyst	0	0	0	0
	Signal & Comm Systems Maintainer	6	6	6	6
	Utility Relocation Specialist	1	1	1	1
	Vehicle Parts Coordinator	0	0	1	1
VIII	Engineering Technician	1	1	1	1
	Executive Administrative Coordinator	1	1	1	1
	Information Technology Systems Specialist	1	1	1	0
	LRV Lead Maintenance Technician	0	0	3	3
	Maintenance Scheduling	1	0	0	0
	Materials/Warranty Coordinator	2	2	2	2
	Sr Communications Specialist	0	0	0	0
	Signal & Communications Syst Tech	4	4	7	7
Traction Power Systems Technician	10	10	10	13	
IX	Accountant II	1	0	0	0
	Area Coordinator	2	2	2	4
	Budget Analyst		1	1	1
	Contract Administrator	1	1	1	1
	LRV Maintenance Supervisor	0	0	3	4
	Network Support Specialist	1	1	1	1
	Planner II	1	1	1	0
	Public Information Specialist	0	0	0	1
	Safety Specialist	0	0	0	1
	Supervisor, Facility Maintenance	1	1	1	0
Supervisor, Track Maintenance	1	1	1	1	
X	Engineer (Civil)	1	1	1	0
	Lead Technician	0	0	0	0
	Network Systems Engineer	0	0	0	2
	Program Control Specialist	1	1	1	1
	Senior Contract Administrator	2	2	2	2
	Signals/Communications Maintenance Supervisor	1	1	1	1
	TES Supervisor	2	2	2	2

Valley Metro Rail, Inc
Full-Time Equivalent Positions

Source: Valley Metro Rail, Inc Finance and Administration Division

Grade	RPTA Position Titles	Authorized FTEs (1)			
		FY 2010	FY 2011	FY 2012	FY 2013
XI	Accountant III	0	1	1	1
	Planner III	2	2	2	3
	Public Arts Administrator	1	1	1	1
	Public Information Officer	1	1	1	1
	Quality Assurance Administrator	0	0	1	1
	Rail DBE Program Manager	0	0	0	0
	Senior Construction Project Coordinator	0	0	1	1
XII	Assist. Superintendent LRV Maintenance	0	0	1	1
	Business Manager	0	0	0	1
	Program Manager, Safety & Training	0	0	1	1
	Rail Marketing Manager	0	0	0	0
	Rail Public Involvement Manager	1	1	1	1
	Rail Real Estate Manager	0	0	0	0
	Rail Senior Engineer (PE)	0	0	0	0
	Rail Utility Manager	1	1	1	1
Senior Transportation Engineer	0	0	0	1	
XIII	Procurement & Risk Management Manager	1	1	1	1
	Finance and Budget Manager	0	0	0	0
	Rail Design & Construction Manager	1	1	1	0
	Manager, Systems and Facility Maintenance	0	0	0	0
	Rail Capital Project Schedule Manager	1	1	1	1
	Rail Maintenance Manager	0	0	0	0
	Rail Operations Manager	0	0	0	0
	Rail Project Manager, Facilities Engineer	1	1	1	1
	Rail Project Manager, Transit Planning	1	1	1	1
	Rail Quality Assurance Manager	1	0	0	0
Systems Engineer	0	0	0	1	
XIV	Rail O & M Startup/Activation Manager	0	0	0	0
	Rail Safety and Security Chief	0	1	1	1
	Manager, Construction and Utilities	0	0	0	1
	Chief Maintenance Engineer	0	1	1	1
	Chief System Engineering Officer	1	1	1	0
	Chief Transportation Officer	1	0	0	0
	Superintendent, LRV Maintenance	0	0	1	1
XV	Rail Chief Operations Officer	0	1	1	1
	Rail Community Relations Director	1	1	1	1
	Rail Finance & Administration Director (CFO)	1	1	1	1
	Rail Safety, Security, and Quality Director	1	0	0	0
XVI	Rail Design & Construction Director	1	1	0	0
	Rail Operations & Maintenance Director	1	0	0	0
	Rail Planning/Development Director	1	1	1	1
GC	Rail General Counsel	1	1	1	1
ED	Rail Chief Executive Officer	1	1	1	0.5
		<u>85</u>	<u>84</u>	<u>141</u>	<u>153</u>

(1) Information prior to FY 2010 was not available.

Valley Metro Rail, Inc.
Schedule of Adopted Pay Grades and Ranges
For the Fiscal Year Ended June 30, 2013

Grade	RPTA Position Titles	Pay Range	
I	Cleaner	\$22,377	- \$33,565
III	Administrative Support Assistant	\$27,626	- \$41,439
	LRV Yard Operator	\$27,626	- \$41,439
	Store Clerk	\$27,626	- \$41,439
IV	Accounting Technician	\$30,696	- \$46,043
	Administrative Assistant	\$30,696	- \$46,043
	Lead Document Control Clerk	\$30,696	- \$46,043
	LRV Inspector	\$30,696	- \$46,043
	Materials Handler	\$30,696	- \$46,043
VI	LRV Maintenance Technician I	\$37,142	- \$55,712
	Paralegal	\$37,142	- \$55,712
	Track Maintainer	\$37,142	- \$55,712
VII	Accountant I	\$40,856	- \$61,284
	Contract Specialist	\$40,857	- \$61,285
	Executive Assistant	\$40,856	- \$61,284
	Help Desk Support Specialist	\$40,856	- \$61,284
	LRV Maintenance Technician II	\$40,856	- \$61,284
	Signal/Comm Maintainer	\$40,856	- \$61,284
	Utility Relocation Specialist	\$40,856	- \$61,284
	Vehicle Parts Coordinator	\$40,856	- \$61,284
VIII	Engineering Technician	\$44,942	- \$67,413
	Executive Administrative Coordinator	\$44,942	- \$67,413
	Information Technology Systems Specialist	\$44,942	- \$67,413
	LRV Lead Maintenance Technician	\$44,942	- \$67,413
	Materials/Warranty Coordinator	\$44,942	- \$67,413
	Signal/Comm Systems Technician	\$44,942	- \$67,413
	Traction Power Systems Technician	\$44,942	- \$67,413
IX	Area Coordinator	\$49,435	- \$74,154
	Budget Analyst	\$49,435	- \$74,154
	Contract Administrator	\$49,435	- \$74,154
	LRV Maintenance Supervisor	\$49,435	- \$74,154
	Network Systems Engineer	\$49,435	- \$74,154
	Planner II	\$49,435	- \$74,154
	Public Information Specialist	\$49,436	- \$74,155
	Safety Specialist	\$49,437	- \$74,156
	Supervisor, Facility Maintenance	\$49,435	- \$74,154
Supervisor, Track Maintenance	\$49,435	- \$74,154	
X	Engineer (Civil)	\$54,380	- \$81,569
	Program Control Specialist	\$54,380	- \$81,569
	Senior Contract Administrator	\$54,380	- \$81,569
	Signals/Communications Maintenance Supervisor	\$54,380	- \$81,569
	TES Supervisor	\$54,380	- \$81,569

Valley Metro Rail, Inc.
Schedule of Adopted Pay Grades and Ranges
For the Fiscal Year Ended June 30, 2013

Grade	RPTA Position Titles	Pay Range	
XI	Accountant III	\$59,818	- \$89,726
	Planner III	\$59,819	- \$89,727
	Public Arts Administrator	\$59,818	- \$89,726
	Public Information Officer	\$59,818	- \$89,726
	Quality Assurance Administrator	\$59,818	- \$89,726
	Senior Construction Project Coordinator	\$59,818	- \$89,726
XII	Assist. Superintendent LRV Maintenance	\$65,799	- \$98,698
	Business Manager	\$65,800	- \$98,699
	Program Manager, Safety & Training	\$65,799	- \$98,698
	Rail Public Involvement Manager	\$65,799	- \$98,698
	Rail Utility Manager	\$65,799	- \$98,698
	Senior Transportation Engineer	\$65,800	- \$98,699
XIII	Procurement & Risk Management Manager	\$72,379	- \$108,568
	Rail Design & Construction Manager	\$72,379	- \$108,568
	Rail Capital Projects Schedule Manager	\$72,379	- \$108,568
	Rail Project Manager, Facilities Engineer	\$72,379	- \$108,568
	Rail Project Manager, Transit Planning	\$72,379	- \$108,568
	Systems Engineer	\$72,381	- \$108,570
XIV	Rail Safety and Security Chief	\$81,992	- \$122,987
	Chief Maintenance Engineer	\$81,992	- \$122,987
	Chief System Engineering Officer	\$81,992	- \$122,987
	Manager, Construction and Utilities	\$81,994	- \$122,989
	Superintendent, LRV Maintenance	\$81,992	- \$122,987
XV	Rail Chief Operations Officer	\$100,202	- \$150,304
	Rail Community & Government Relations Director	\$100,202	- \$150,304
	Rail Finance & Administration Director (CFO)	\$100,202	- \$150,304
XVI	Rail Project/Planning Development Director	\$112,627	- \$168,941
GC	Rail General Counsel	\$117,246	- \$175,870
ED	Chief Executive Officer	Salary Negotiated	

Valley Metro Rail, Inc.
Schedule of Insurance Coverage
For the Fiscal Year Ended June 30, 2013

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
KTKCMB2700C768612	Commercial Property	143,492,353 TIV 10,000 Deductible 25,000,000 Flood & EQ 100,000 Flood & EQ Deductible	12/1/2012-13	\$109,164	Travelers Indemnity Co.
QT6605833B340TIL12	Inland Marine - Rolling Stock	150,660,000 Limit 100,000 Deductible	12/1/2012-13	\$170,698	Travelers P&C Insurance Co. of America
QT6605833B352TIL12	Inland Marine - Town Lake Bridge	22,581,224 TIV 5,000,000 Flood & EQ 100,000 Deductible	12/1/2012-13	\$30,710	Travelers P&C Insurance Co. of America
I21112951006	DIC - Excess Flood and EQ for Town Lake Bridge	15,000,000 per Occurrence x/o 5,000,000 underlying	12/1/2012-13	\$35,932	ACE Fire Underwriters Insurance Co.
CCP006379805	Commercial Crime	1,000,000 Limit 10,000 Deductible	12/1/2012-13	\$2,281	Fidelity & Deposit Co. of Maryland
72UENKC6629	Auto Liability and Physical Damage	300,000 CSL Limit 2,000 Comp & Coll Deductible except 5,000 Deductible for Brandt and 2009 International	12/1/2012-13	\$50,984	Hartford Fire Insurance Co.
N1A3RL000006603	Primary Excess Liability	10,000,000 x/o 250,000 SIR	12/1/2012-13	\$494,126	Princeton Excess & Surplus Lines Insurance Co.
SISCPEL01951912	Excess Liability	10,000,000 x/o 10,000,000	12/1/2012-13	\$85,672	Starr Indemnity & Liability Co.
03051169	Excess Liability	15,000,000 x/o 20,000,000	12/1/2012-13	\$6,086	Allied World National Assurance Co.
EXC4646765	Excess Liability	25,000,000 x/o 35,000,000	12/1/2012-13	\$99,356	Great American Assurance Co.

Valley Metro Rail, Inc.
Schedule of Insurance Coverage (Concluded)
For the Fiscal Year Ended June 30, 2013

Source: Valley Metro Rail, Inc Contracts and Procurement Division

Policy #	Coverage	Limits	Policy Term	Premium	Carrier
UXP0036314103	Excess Liability	25,000,000 x/o 60,000,000	12/1/2012-13	\$37,000	Arch Insurance Co.
G24100868004	Excess Liability	15,000,000 x/o 85,000,000	12/1/2012-13	\$78,432	Westchester Surplus Lines Insurance Co.
W20710	Workers Compensation & Employers Liabilities Insurance Policy	WC - Statutory EL - 1,000,000	3/1/2013-14	-	SCF Western Insurance Co.
37312354	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.

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

March 2007 - Phoenix City Council approves funding for Northwest Extension

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

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

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

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

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.

October 2012 – Gilbert Road Extension enters into the next phase of the planning process, the Environmental Assessment (EA).

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

Source: Valley Metro Rail, Inc. Finance Division