



VALLEY METRO RAIL, INC.

Phoenix, AZ

SINGLE AUDIT ACT REPORTS

For the Fiscal Year Ended June 30, 2009



VALLEY METRO RAIL, INC.
SINGLE AUDIT ACT REPORT
FOR THE
FISCAL YEAR ENDED JUNE 30, 2009

**VALLEY METRO RAIL, INC.
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FISCAL YEAR ENDED JUNE 30, 2009**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors of the
Valley Metro Rail, Inc.

We have audited the financial statements of the Valley Metro Rail, Inc. (METRO) as of and for the year ended June 30, 2009, and have issued our report thereon dated January 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Valley Metro Rail, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Valley Metro Rail, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of METRO's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects METRO's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of METRO's financial statements that is more than inconsequential will not be prevented or detected by METRO's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2009-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by METRO's internal control.

The Board of Directors of the
Valley Metro Rail, Inc.
January 28, 2010

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Valley Metro Rail, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted other matters that we reported to management in a separate letter dated January 28, 2010.

Valley Metro Rail, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Valley Metro Rail, Inc.'s response, and accordingly, we express no opinion on it.

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



LarsonAllen LLP

Mesa, Arizona
January 28, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors of the
Valley Metro Rail, Inc.

Compliance with Requirements Applicable to Each Major Program

We have audited the compliance of Valley Metro Rail, Inc. (METRO) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Valley Metro Rail, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Valley Metro Rail, Inc.'s management. Our responsibility is to express an opinion on Valley Metro Rail, Inc.'s compliance based on our audit.

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

In our opinion, Valley Metro Rail, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance in Accordance with OMB Circular A-133

The management of Valley Metro Rail, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Valley Metro Rail, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of METRO's internal control over compliance.

The Board of Directors of the
Valley Metro Rail, Inc.
January 28, 2010

A control deficiency in METRO's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects METRO's ability to administer a major federal program such that there is more than a remote likelihood that the noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by METRO's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by METRO's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities of Valley Metro Rail, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated Report Date. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
January 28, 2010

Valley Metro Rail, Inc.
Schedule of Findings and Questioned Costs
Fiscal Year Ended 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*
Internal control over financial reporting:
• Material weakness(es) identified? _____ yes no
• Significant deficiency(ies) identified not considered to be material weaknesses? yes _____ none reported
Noncompliance material to financial statements noted? _____ yes no

Federal Awards

Internal Control over major programs:
• Material weakness(es) identified? _____ yes no
• Significant deficiency(ies) identified not considered to be material weaknesses? _____ yes none reported
Type of auditor's report issued on compliance for major programs: *Unqualified*
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? _____ yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.507	Federal Transit Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$2,205,426
Auditee qualified as low-risk auditee? yes _____ no

SECTION II—FINANCIAL STATEMENT FINDINGS

2009-1 Classification of Capital Lease Payments

Condition: During review of the METRO's capital lease liability, we noted that METRO had unspent lease proceeds that will be used in the upcoming fiscal year to fund the acquisition of parts and supplies inventory. The lease arrangement was a new financing instrument for METRO that required the application of complex accounting principles. In reviewing the disclosure, it was determined that an adjustment was necessary to impute an interest rate on the financing agreement, resulting in an adjustment to increase the principal liability for the unspent lease proceeds and accrue interest through fiscal year ended June 30, 2009.

Criteria: Generally accepted accounting principles.

Effect: An adjustment was necessary to increase the liability of the outstanding lease and accrue interest through the fiscal year ended June 30, 2009.

Cause: This was METRO's first year utilizing a financing instrument and the manner in which the lease agreement was written, it required the use of complex accounting principles to disclose the liability and future payment schedule for financial reporting purposes.

Recommendation: In order to ensure new financing arrangements include all required disclosures beyond those included in the master lease agreement, METRO should consider consulting its auditors or organizations considered its peers to determine the structure of the lease agreement does not require the use of other accounting principles.

Response: METRO concurs with this recommendation and has since consulted with its auditors for guidance on the current lease agreement to obtain the basis for presentation in accordance with generally accepted accounting principles. METRO will confer with its peers or its auditors in the future when entering into any new financing arrangements.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Noted

SECTION IV—SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no prior audit findings.

Valley Metro Rail, Inc.
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2009

Federal Grantor Agency and Program Title	CFDA Number	Pass-Through Grantor	Pass-Through Identifying Number	Awards Expended
Department of Transportation:				
Federal Highway Administration:				
Highway Planning and Construction	20.205	Maricopa Association of Governments	Contract 0297	\$ 198,609
Highway Planning and Construction	20.205	Maricopa Association of Governments	Contract 0353	451,883
Total Federal Highway Administration				<u>650,492</u>
Federal Transit Administration:				
Urbanized Area Formula	20.507	City of Phoenix	AZ-95-X004-00	4,000,000
Urbanized Area Formula	20.507	City of Phoenix	AZ-90-X070-00	574,460
Urbanized Area Formula	20.507	City of Phoenix	AZ-90-X068-00	131,127
Urbanized Area Formula	20.507	City of Phoenix	AZ-90-X084-00	2,253,629
New Starts	20.507	City of Phoenix	AZ-03-0031-11	882,000
ARRA - New Starts	20.507	City of Phoenix	AZ-03-0031-ARRA	14,736,664
New Starts	20.507	City of Phoenix	AZ-03-0031-12	50,285,819
Total Federal Transit Administration				<u>72,863,699</u>
Total Expenditures of Federal Awards				<u><u>\$ 73,514,191</u></u>