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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

Independent Auditor’s Report

Board of Directors
Valley Metro Rail, Inc.

We have audited, in accordance with the 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, the 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, and have issued our report thereon dated November 1, 2013. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 63.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Valley Metro Rail, Inc.’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Metro Rail, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of Valley Metro Rail, Inc.’s internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the METRO’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.
Compliance and Other Matters
As part of obtaining reasonable assurance about whether Valley Metro Rail, Inc.’s financial statements are free from 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 or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the METRO’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the METRO’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

November 1, 2013
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Independent Auditor’s Report

Board of Directors
Valley Metro Rail, Inc.

Report on Compliance for Each Major Federal Program
We have audited Valley Metro Rail, Inc.’s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Valley Metro Rail, Inc.’s major federal programs for the year ended June 30, 2013. 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.

Management’s Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility
Our responsibility is to express an opinion on compliance for each of Valley Metro Rail, Inc.’s major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Valley Metro Rail, Inc.’s compliance.
Opinion on Each Major Federal Program
In our opinion, Valley Metro Rail, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance
Management of Valley Metro Rail, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered Valley Metro Rail, Inc.’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Valley Metro Rail, Inc.’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133
We have audited the financial statements of Valley Metro Rail, Inc. as of and for the year ended June 30, 2013, and the related notes to the financial statements. We have issued our report thereon dated November 1, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements.
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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

HEINFELD, MEECH & CO., P.C.

CPAs and Business Consultants

November 1, 2013
Valley Metro Rail, Inc.
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2013

<table>
<thead>
<tr>
<th>Federal Grantor Agency and Program Title</th>
<th>CFDA Number</th>
<th>Pass-Through Grantor</th>
<th>Pass-Through Identifying Number</th>
<th>Awards Expended</th>
<th>Awards Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Department of Transportation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Federal Transit Administration:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Transit Cluster</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Transit-Capital Investment Grants</td>
<td>20.500</td>
<td>City of Phoenix</td>
<td>AZ-03-0066</td>
<td>$18,205,362</td>
<td>$18,205,362</td>
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<td>City of Phoenix</td>
<td>AZ-05-0205</td>
<td>183,986</td>
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<tr>
<td>Federal Transit- Formula Grants (Urbanized Area Formula Program)</td>
<td>20.507</td>
<td>City of Phoenix</td>
<td>AZ-90-X114</td>
<td>3,908,356</td>
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<tr>
<td>Federal Transit- Formula Grants (Urbanized Area Formula Program)</td>
<td>20.507</td>
<td>City of Phoenix</td>
<td>AZ-95-X006-01</td>
<td>1,615,361</td>
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<tr>
<td>Federal Transit- Formula Grants (Urbanized Area Formula Program)</td>
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<td>City of Phoenix</td>
<td>AZ-95-X009</td>
<td>7,983,773</td>
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<tr>
<td>Federal Transit- Formula Grants (Urbanized Area Formula Program)</td>
<td>20.507</td>
<td>City of Phoenix</td>
<td>AZ-95-X013</td>
<td>77,526</td>
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<tr>
<td><strong>Federal Transit Cluster Total</strong></td>
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<td></td>
<td></td>
<td>33,265,019</td>
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<tr>
<td>Alternatives Analysis</td>
<td>20.522</td>
<td>City of Phoenix</td>
<td>AZ-39-0001-00</td>
<td>91,600</td>
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<td>Alternatives Analysis</td>
<td>20.522</td>
<td>City of Phoenix</td>
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<tr>
<td>Alternatives Analysis</td>
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<td>City of Phoenix</td>
<td>AZ-39-0005-00</td>
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<tr>
<td><strong>Total Alternatives Analysis</strong></td>
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<td></td>
<td></td>
<td>659,020</td>
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<tr>
<td><strong>Total Federal Transit Administration</strong></td>
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<td></td>
<td></td>
<td>33,924,039</td>
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<tr>
<td><strong>Total Expenditures of Federal Awards</strong></td>
<td></td>
<td></td>
<td></td>
<td>$33,924,039</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to the Schedule of Expenditures of Federal Awards
NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Valley Metro Rail, Inc. and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2013 Catalog of Federal Domestic Assistance.
SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:
• Material weakness(es) identified? yes X no
• Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:
• Material weakness(es) identified? yes X no
• Significant deficiency(ies) identified? yes X none reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

CFDA Numbers Name of Federal Program or Cluster
20.500, 20.507 Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $1,017,722

Auditee qualified as low-risk auditee? yes X no
FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None reported.

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None reported.
Status of Federal Award Findings and Questioned Costs

The Valley Metro Rail, Inc. had no findings or questioned costs related to federal awards noted in prior audits that require a status.