



**METROPOLITAN TRANSIT AUTHORITY  
OF HARRIS COUNTY, TEXAS**

Single Audit

September 30, 2006

(With Independent Auditors' Reports Thereon)

**METROPOLITAN TRANSIT AUTHORITY  
OF HARRIS COUNTY, TEXAS**

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KPMG LLP  
700 Louisiana Street  
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**Independent Auditors' 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  
Metropolitan Transit Authority of  
Harris County, Texas:

We have audited the basic financial statements of the Metropolitan Transit Authority of Harris County, Texas (the Authority) as of and for the year ended September 30, 2006, and have issued our report thereon dated January 15, 2007, which included a reference to the adoption of Governmental Accounting Standards Board Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and Governmental Accounting Standards Board Statement No. 44, *Economic Condition Reporting: The Statistical Section*. 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 of America.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*. We noted certain matters that we reported to management of the Authority in a separate letter dated January 15, 2007.

This report is intended solely for the information and use of the audit committee, management, and 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.

**KPMG LLP**

January 15, 2007



**KPMG LLP**  
700 Louisiana Street  
Houston, TX 77002

**Independent Auditors' Report on Compliance  
With Requirements Applicable to Each Major Federal  
Program, Internal Control Over Compliance in  
Accordance With OMB Circular A-133 and the  
Schedule of Expenditures of Federal Awards**

The Board of Directors  
Metropolitan Transit Authority of  
Harris County, Texas:

**Compliance**

We have audited the compliance of the Metropolitan Transit Authority of Harris County, Texas (the Authority) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.



## **Internal Control Over Compliance**

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

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

## **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the Authority as of and for the year ended September 30, 2006, and have issued our report thereon dated January 15, 2007, which included a reference to the adoption of Governmental Accounting Standards Board Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and Governmental Accounting Standards Board Statement No. 44, *Economic Condition Reporting: The Statistical Section*. Our audit was performed for the purpose of forming an opinion on the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, and 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.

**KPMG LLP**

January 15, 2007

**METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ended September 30, 2006

(in thousands)

Catalog of Federal Domestic Assistance Number	Grant Number	Program/Project Description	Expenditures	
<b>U.S. Department of Transportation, Federal Transit Administration (Direct)</b>				
<b>Federal Transit Capital Improvement Grants</b>				
20.500	*	TX-03-0150	Regional Bus Plan	\$ 19,513
20.500	*	TX-03-0174	FY 1994/5 Fixed Guideway Mod.	270
20.500	*	TX-03-0187	FY 1996 Fixed Guideway Mod.	282
20.500	*	TX-03-0190	FY 1997 Fixed Guideway Mod.	141
20.500	*	TX-03-0196	Southwest HOV Segment V	0
20.500	*	TX-03-0207	FY 1998/9 Fixed Guideway Mod.	33
20.500	*	TX-03-0216	FY 2000 Fixed Guideway Mod.	97
20.500	*	TX-03-0232	FY 2001/2 New Starts (2025 Studies)	9,508
20.500	*	TX-03-0233	FY 2001/2 Discretionary Bus	2,721
20.500	*	TX-03-0238	FY 2001 Fixed Guideway Mod.	1,726
20.500	*	TX-03-0248	FY 2002 Fixed Guideway Mod.	851
20.500	*	TX-03-0259	Cypress, Fuqua & Clear Lake P&R (Sect. 5309 New Starts)	622
20.500	*	TX-03-0268	North Corridor PE (Sect. 5309 New Starts)	3,762
20.500	*	TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts)	4,293
			<hr/>	
Total Direct Federal Transit Capital Improvement Grants			43,819	
<b>Federal Transit Capital and Operating Assistance Formula Grants</b>				
20.507	*	TX-90-0436	FY 1998 Urbanized Area Formula - RCTSS	(70)
20.507	*	TX-90-0497	FY 2000 Urbanized Area Formula - MFRI, RCTSS & Shelter Enhancement	208
20.507	*	TX-90-0542	FY 2001 Urbanized Area Formula - MFRI BOF; Administration Building Construction; RCTSS; and Small Business Develop Planning	297
20.507	*	TX-90-0564	FY 2002 Urbanized Area Formula - MFRI Transit Centers, Park & Rides and Bus Operating Facilities; Administration Building Construction and Spur 527	(199)
20.507	*	TX-90-0603	FY 2003 Urbanized Area Formula - Purchase MetroLift Vans; Administration Building Construction; SmartCard; Shelter Enhancement; RCTSS and Small Business Develop Planning	1,627
20.507	*	TX-90-0640	FY 2004 Urbanized Area Formula - Administration Building Construction; MFRI; Shelter Enhancement; SmartCard and RCTSS	2,690
20.507	*	TX-90-0681	FY 2005 Urbanized Area Formula - MFRI; Smart Card; RCTSS; Shelter Enhancement	14,173
20.507	*	TX-90-0708	FY 2006 Urbanized Area Formula - Smart Card; METRONet; Intermodal Terminal; Shelter Enhancement	157
			<hr/>	
Total Direct Federal Transit Capital and Operating Assistance Formula Grants			18,883	

(Continued)

**METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ended September 30, 2006

(in thousands)

Catalog of Federal Domestic Assistance Number	Grant Number	Program/Project Description	Expenditures
<b>Funds passed through FTA and treated as cost recovery funds</b>			
20.507	* TX-90-0681	Non-Fixed route paratransit transportation per Sect 223 of ADA Act of 1990; Capitalized Bus Preventive Maintenance; Buffalo Bayou Capitalized Bus Preventive Maintenance; and Service Expansion	8,776
20.507	* TX-90-0708	Non-Fixed route paratransit transportation per Sect 223 of ADA Act of 1990; Capitalized Bus Preventive Maintenance; and Buffalo Bayou Capitalized Bus Preventive Maintenance	47,938
Total funds passed through FTA			56,714
Total Federal Transit Capital and Operating Assistance Operating Assistance Formula Grants			75,597
<b>U.S. Department of Homeland Security (Direct)</b>			
97.008		Urban Area Security Initiative	1,121
97.036		Disaster grants - Public Assistance	1,304
Total Department of Homeland Security			2,425
<b>Funds passed through FHWA and treated as cost recovery funds</b>			
U.S. Department of Transportation Funds passed through the Federal Highway Administration (FHWA), The Texas Department of Transportation and the Houston-Galveston Area Council (HGAC)			
20.205		Van Pool and Clean Vehicle Program (Passed through)	2,977
Total funds passed through FHWA			2,977
<b>Funds passed through DOJ and treated as cost recovery funds</b>			
U.S. Department of Justice Funds passed through Texas Engineering Extension Service, Texas A & M University Systems (COPS)			
16.710			12
Total funds passed through DOJ			12
<b>Total Federal Awards</b>			<b>\$ 124,830</b>

\* Major federal assistance program

See accompanying auditors report and notes to the schedule of expenditures of federal awards.

**METROPOLITAN TRANSIT AUTHORITY  
OF HARRIS COUNTY, TEXAS**

Notes to the Schedule of Expenditures of Federal Awards  
Year ended September 30, 2006

**(1) Reporting Entity**

The Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Metropolitan Transit Authority of Harris County, Texas (the Authority).

**(2) Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to the Authority's basic financial statements.

**(3) Relationship to the Basic Financial Statements**

Federal financial assistance is reported in the basic financial statements as follows (amounts in thousands):

Capital contributions	\$	123,469
Add: FEMA reimbursement for Disaster Grants Public Assistance expenditures in prior year		1,304
Add: Department of Homeland Security reimbursement for Urban Area Security Initiative expenditure in prior year		308
Less: Texas Emission Reduction Program (TERP) funds from the Texas Commission on Environmental Quality		(12)
Less: TERP funds expended and reimbursed in prior year for Ultra Low Sulfur Diesel		<u>(239)</u>
Total	\$	<u><u>124,830</u></u>



**METROPOLITAN TRANSIT AUTHORITY  
OF HARRIS COUNTY, TEXAS**

Schedule of Findings and Questioned Costs  
Year ended September 30, 2006

**(1) Summary of Auditors' Results**

***Financial Statements***

The type of auditors' report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Reportable condition(s) identified that are not considered to be material weakness(es)? **None reported**

Noncompliance that is material to the financial statements noted? **No**

***Federal Awards***

Internal control over major programs:

- Material weaknesses identified? **No**
- Reportable condition(s) identified that are not considered to be material weakness(es)? **None reported**

The type of auditors' report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

Identification of Major Programs:

<u>Name of program or cluster</u>	<u>CFDA number</u>
Federal Transit Capital Improvement	20.500
Federal Transit Capital and Operating Assistance	20.507

Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**

Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **No**

**(2) Financial Statements Findings**

No findings were reported for the year ended September 30, 2006.

**METROPOLITAN TRANSIT AUTHORITY  
OF HARRIS COUNTY, TEXAS**

Schedule of Findings and Questioned Costs

Year ended September 30, 2006

**(3) Federal Award Findings and Questioned Costs**

No findings were reported for the year ended September 30, 2006.