

**SOUND TRANSIT
AUDIT AND REPORTING SUBCOMMITTEE
June 19, 2008 Meeting Summary**

Subcommittee members in attendance: Fred Butler (Chair), Dave Enslow, and Dick Chapin

Chair Butler called the meeting to order at 11:45 a.m.

1. Introduction

Chief Financial Officer Brian McCartan reviewed today's agenda with the committee.

2. 2007 Year-End Financial Statements and Schedule of Subarea Equity

Controller Kelly Priestley acknowledged the Sound Transit accounting team for their work in preparing the year-end financial statements. She gave a presentation to the subcommittee (on file with Board Administration); total operating revenues are up 22.3% over 2006 to \$26.2 million, due in part to the startup of additional service. Total operating expenses, excluding depreciation and loss on disposal, were \$116.2 million.

Non-operating revenues increased \$11.2 million to \$380.3 million, and non-operating expenses increased by \$9.0 million, reflected costs related to Link startup, costs in support of claims, and east corridor planning.

3. 2007 Auditors Reports from KPMG

Thomas Evert and Karl Erickson gave a presentation on the 2007 Financial Statements Audit. They advised that Sound Transit will be receiving a clean, unqualified opinion for 2007.

The auditing team mentioned one minor compliance finding with the Davis-Bacon Act, regarding contractors submitting certified payrolls on a weekly basis. Chief Executive Officer Joni Earl added that the contractor is one that performs on-call services for Sound Transit; procedures have been corrected to address this issue.

Mr. McCartan thanked both KPMG and the Sound Transit accounting team for their work on this year's audit. He added that KPMG's contract expires at the end of this year; a new procurement will be sought for independent auditing services.

4. 1st Quarter 2008 Asset/Liability Report

Senior Cash and Investment Analyst Jim Block gave a staff presentation. In response to a question from Boardmember Enslow, Treasurer Tracy Butler stated that currently there are no plans to issue bonds in 2008, primarily due to current market conditions.

Mr. Block provided an update on the King County Investment Pool. King County has hired a team of investment advisors to analyze the Pool and make recommendations. A report was released in May 2008, which Sound Transit's investment team is looking at to see if any recommendations can be applied to its own investment practices.

Mr. Block reported that the Financial Guarantee Insurance Company, which insures Sound Transit's 1999 bonds, was recently downgraded by both Standard and Poor's and Moody's. However, this downgrade does not affect the AAA rating assigned to Sound Transit's 1999 bonds.

In response to questions from Chair Butler, Ms. Butler described the safeguards in place to make sure funds contained in the Capital Replacement Fund are used for that specific purpose. Some of the safeguards include separate accounts and other internal policies. Mr. McCartan described the capital replacement schedule for the light rail program.

5. 1st Quarter 2008 Financial Report

Budget Manager Pete Rogness provided the staff presentation. He discussed tax revenue trends by subarea. Many municipalities are seeing their real estate excise tax revenues dropping; these revenues are not being offset by sales tax revenues, meaning that many municipalities are seeing lower revenues overall.

Sound Transit's year to date tax revenues are 0.3% above budget; while the three King County subareas are seeing revenues above budget, the Pierce and Snohomish County subareas are slightly below budget. Mr. McCartan cautioned, however, that King County's economy tends to lag the rest of the nation and potentially could see dips in tax revenues by the end of the year.

6. Chief Financial Officer's Report

State Performance Audit

Mr. McCartan updated the subcommittee on plans for a state performance audit by the Washington State Auditor's Office. He announced that the State has decided not to perform a performance audit on Sound Transit in 2008. However, it will perform a risk assessment on the agency in Fall 2008 to help determine where the next performance audit should focus on in 2009.

ST2 Financial Policies

Mr. McCartan advised that after consulting with Boardmembers, staff is working on language regarding a tax rollback trigger in the ST2 Financial Plan. The rollback would be triggered upon completion of the ST2 plan. The Board would then adopt the Financial Plan as part of the ST2 package to go to the voters.

7. Next Meeting – September 18, 2008

Chair Butler adjourned the meeting at 1:08 p.m.