SOUND TRANSIT
AUDIT AND REPORTING SUBCOMMITTEE
June 18, 2009 Meeting Summary

Subcommittee members in attendance: Fred Butler (Chair), Dave Enslow, Claudia Thomas, and J.D. Wessling (COP Vice Chair)

Chair Butler called the meeting to order at 11:36 a.m. He announced that Aubrey Davis, COP member, was also in attendance.

1. Introduction

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

2. Performance Audit Status Update

David Hammond, External Reporting & Compliance Manager, provided an update on the State Auditor's risk assessment of Sound Transit, which will be used by the auditor's office to determine where to focus performance audits. He noted that the schedule has been revised; work on the audit is now scheduled to be complete by the end of July instead of May. Mr. Hammond noted that 60 risk areas have been identified, the state auditors will now review what procedures are in place at Sound Transit to address risk areas and will narrow the list based on that analysis.

3. 2008 Year-End Financial Statements and Schedule of Subarea Equity

Kelly Priestly, Controller, reviewed the 2009 year-end financial statements. She noted that this year is the first year that the GASB pronouncements for environmental obligations need to be included in the financial statements. The financial statements include a restating prior years so that comparisons can be made. The reporting of cash equivalents, investments and restricted assets disclosure has been enhanced to call out the debt service fund and the capital replacement fund.

Operating revenues were $30.5 million. Growth was seen in ST Express service, which makes up 77% of all rides. Sounder showed 1% growth over last year. The review of 2008 also showed no fare changes, a marginal increase in ST Express services. The percentage of fares received by each service has shifted slightly. She reviewed fares by subarea, East King County and Pierce County generate the majority of the operating revenue. There has been a growth in operating expenses, due to an increase in rates charged by partners, and fuel increases. Operating expenses were reviewed by subarea; South King County subarea had the greatest increase in operating costs due to the need for increased security and facility costs. Costs have increased in support of capital because of higher staffing levels. There was a slight decrease in non-operating revenue, reflecting the drop in sales tax revenue. Tax revenues were down $18.7 million in 2008 from prior years, down 5.3%; this amount includes $4.5 million in MVET refunds. Non-operating expenses increased by $2.8 million due to ST2 ballot costs, light rail start-up, and the removal of the Star Lake Freeway Station project. Capital contributions to Sound Transit are up $49.1 million, for a total of nearly $160 million. Contributions to other governments total $47.8 million for a net to Sound Transit of $107 million; these factors are influenced by when Sound Transit completes projects and when they are transferred to other agencies.

Ms. Priestly reviewed the projects that were completed in 2008 and 2009 that affected Sound Transit's assets. Total assets are $4.6 billion, with debt of $1.4 billion, for a net of $3.2 billion in total assets. The debt is made up of $174.6 million in payables and current liabilities and $1.3 billion in long-term debt primarily in bonds. She reviewed the range of assets and the amount in land, equivalents, CIP and in-service assets. She noted that next year the graph will shift because of changes due to operation of Link light rail. She reviewed the major projects capitalized as fixed assets and CIP activity for Sounder, Link light rail and ST Express buses.

4. 2008 Year-end Financial & Federal Auditor's Reports

Jim Evert of KPMG noted that the 2008 Year-end audit is substantially complete; it will be completed when feedback is received on the financial statements. The auditors issued a clean, unqualified opinion, and no materials weaknesses were noted. He introduced Karl Erickson of KPMG who presented the financial statement audit. Mr. Erickson noted that capital projects and improvements to assets were reviewed; no issues were discovered as part of that review. The balance sheet, CIP and construction progress were reviewed, 85% of the balance sheet is capital assets. The review showed increases in capital assets and CIP over time as expected. In areas where Sound Transit is doing the work but the asset is not owned by Sound Transit, the audit found that the amounts spent are consistent with contributions to federal, state and other entities. Operating revenues and expenses are over 18%. Tax revenues and operating revenues and expenses are consistent with last year and with transit agencies throughout the nation. Mr. Evert also reviewed the lease-leaseback transaction that exists and how Sound Transit could be impacted.

The audit found that estimates for construction claims are reasonable. Claims from OCIP, the self insurance program, land swap transactions and contractor overhead were also reviewed. Two adjustments by management were made, including one to SDOT for $2 million, and payments for ST2 elections were made after year-end, no additional adjustments were proposed. Mr. Evert noted that the way claims are given to the actuary could be improved and will be included in the management letter. He also noted a payment of $50,000 for assistance with the ORCA project.

Jen Pearson of KPMG presented the separate A133 audit on federal grants. She noted that testing was done related to federal award expectations and compliance. Sound Transit received $160 million from the Federal Transit Administration this year. The audit resulted in an unqualified finding except for a finding regarding the Davis Bacon Act. The audit found that Sound Transit did not report information on employment frequently enough. She noted that new processes were in place January 1, 2009 to meet the Davis Bacon requirement, but a portion of the audit period retained the same process as last year. 14 areas were reviewed, Davis Bacon is the only area where findings were discovered.

Karl Erickson of KPMG talked about the National Transit Database reporting. He noted that there were some system failure issues with the automatic counter on Sounder, Sound Transit is working with the National Transit Database to find out how the issue can be resolved. He also noted that the data reviewed was consistent with other areas reviewed by the audit. Mr. Erickson also discussed subarea reporting, 29 procedures were completed to be sure the subarea schedule is correct, some minor findings were found including one for $15,000 that was incorrectly assigned.

5. 1st Quarter Asset/Liability Management Report

Assistant Treasurer Jim Block presented the 1st Quarter Asset/Liability Management report. During the first quarter there was increased market stability. There were no changes to the stoplight indicators in the Asset/Liability Management report, and interest rates are still at historic lows. The average yield of Sound Transit's cash and investment holdings decreased by 34 basis points in the 1st Quarter, there was also a decrease in the yield on the State Investment Pool, from 1.82% in December 31, 2008 to 1.03% now. Cost and investments decreased $33 million, interest earnings are trending slightly below budget. In the 1st quarter, $20 million in investments were made with a average yield of 2.18%. All the portfolios are in compliance with the investment policy. King County Investment pool still has one remaining impaired investment to sell, but expect to sell the investment by the end of 2009.

6. 1st Quarter Financial Report

Budget Manager Pete Rogness reported that net assets increased by $243 million resulting in a fairly healthy asset/liability ratio of 3.5. Capital outlays were reviewed; in the first quarter Sound Transit was at 89% of the year-to-date budget.

The Sounder program is at 67% of budget, construction is under budget by $112 million, which represents savings from the Seattle-Tacoma Track and Signal Project and $4.7 million under-spending on the D Street to M Street Project due to construction delays. The Link light rail program is at 100% of budget. The Initial

Segment is ahead of budget because of start-up activities and the University Link Segment is ahead of budget because of ahead of schedule activity. The ST Express budget is at 146% of the year-to-date budget; the Totem Lake Transit Center and I-90 Two-way HOV and Transit Access Stage I projects had budget expenditures programmed for last year, but they took place this year. There is no impact to the lifetime budget for those projects. Other capital was at 23% of the year-to-date budget, a $2.9 million dollar budget variance.

Total revenues were at 80% of budget, and total expenditures were at 79% of budget. Federal grant draw-downs were under the budget forecast by $23.7 million. Tax revenues are $5.9 million under budget, investment income was $1.3 million under budget, and fare revenue is $1.2 million under budget, although state and local contributions offset the decrease by $7.7 million dollars. Transit operation costs are at 87% of the budget in the first quarter, passenger fares were at 92% of the budget and ridership was 99% of the forecast. Fare box recovery peaked in the 3rd Quarter of 2008. ST Express peaked at 30%, and is now at 21%, Sounder peaked at 35% and is down to 26% due to ridership decreases.

Staff operating expenses are at 83% of the year-to-date budget, all departments are within their year-to-date budget. Other expenses are at 29% of the year-to-date budget. 90% of the staff operating budget is typically spent, this year will be closer to budget because of ST2 and Link launch activities. Ms. Earl explained that since revenues are down the agency is looking at cutting travel expenses, increasing staff at a slower rate and changing the pay structure.

7. Next Meeting – September 17, 2009

Chair Butler adjourned the meeting at 12:46 p.m.