

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

Subcommittee members in attendance: Fred Butler (Chair), Mary-Alyce Burleigh, Dave Enslow, Claudia Thomas, and J.D. Weissling (COP Vice Chair)

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. Audit Update

Controller Kelly Priestley gave the staff presentation. She reviewed the management letter from the independent auditor KPMG regarding the agency's 2007 financial statements. KPMG made recommendations regarding data collection and submission for NTD and management and accounting for accrued vacation hours. In the letter, Sound Transit management provides a response to each of the recommendations.

Regarding the state audit, Ms. Priestley advised that the state audit is underway. She was pleased to announce that the audit report may arrive earlier than in years past – possibly in early November. She also noted that this year staff is also working with the state information technology auditing team in providing electronic data for utilizing some computerized auditing techniques.

Ms. Priestley also announced that staff is in the process of procuring a new contract for independent financial auditing services. Staff will seek authorization for awarding the contract from the Finance Committee in early October 2008.

3. 2nd Quarter 2008 Asset/Liability Report

Assistant Treasurer Jim Block gave the staff presentation. Investment income has been trending slightly below budget; however, with the cancellation of the \$100 million bond issue (because of recent market volatility), this was somewhat expected. In response to a question from Chair Butler, Mr. Block provided details on the federal government's decision to takeover Fannie Mae and Freddie Mac, and its effects on Sound Transit's investments. Mr. McCartan discussed the federal government's actions and its effects on Sound Transit's 2005 bond reserve agreement with Lehman Brothers and its OCIP program, of which a subsidiary of insurance company AIG is proposing to provide coverage.

Mr. Block provided an update on the King County Investment Pool. King County is proposing to lower its fee structure and make changes to its investment portfolio. It also sold off its interest in the Cheyenne investment at 60% of its holding value.

Treasurer Tracy Butler explained the purpose of insured bonds and why the downgrade to Ambac Assurance Corporation will not affect the underlying ratings assigned to Sound Transit's bonds.

Ms. Butler gave a presentation on Sound Transit's investment program. The evaluation of the program focused on four areas: governance, infrastructure, accountability, and metrics. She also explained current practices, opportunities for making improvements, and an action plan for making

those improvements. She added that the agency has in place most of the practices that were deficient in the King County Investment pool program.

In response to a question from Citizen Oversight Panel Vice Chair J.D. Weissling, Mr. McCartan explained Sound Transit's banking policies. He explained that the agency uses a number of banks to hold its day-to-day cash accounts, investments, and bond reserves. In terms of the 2005 bond reserve agreement with Lehman Brothers, Sound Transit will not lose its underlying principal. However, it will have to find another manager for those bond funds after Lehman Brothers filed for bankruptcy.

4. 2nd Quarter 2008 Financial Report

Budget Manager Pete Rogness provided the staff presentation. Total Net Assets year to date were \$3,025 million, or 9% over last year. Capital spending was 74% of year to date budget. Total revenues were 98% of year to the date budget, and total expenses were 88% of year to date budget.

Sales tax revenues are 1.8% below budget, with over tax revenues 1.2% below budget. By subarea, both Snohomish and Pierce Counties are below budget, which has followed recent forecast trends.

5. Discussion Item: SAS 112 – Communicating Internal Control Related Matters Noted in an Audit

Ms. Priestley gave the staff presentation, explaining what the new auditing standard means. She reviewed a letter from KPMG dated August 7, 2008 which describes KPMG's audit report on Sound Transit's 2006 and 2007 financial statements.

6. Next Meeting – December 18, 2008

Chair Butler adjourned the meeting at 12:45 p.m.