



Central Puget Sound Regional Transit Authority

Presentation to the audit and reporting committee

FY 2016 financial statement audit results

June 15, 2017

Agenda

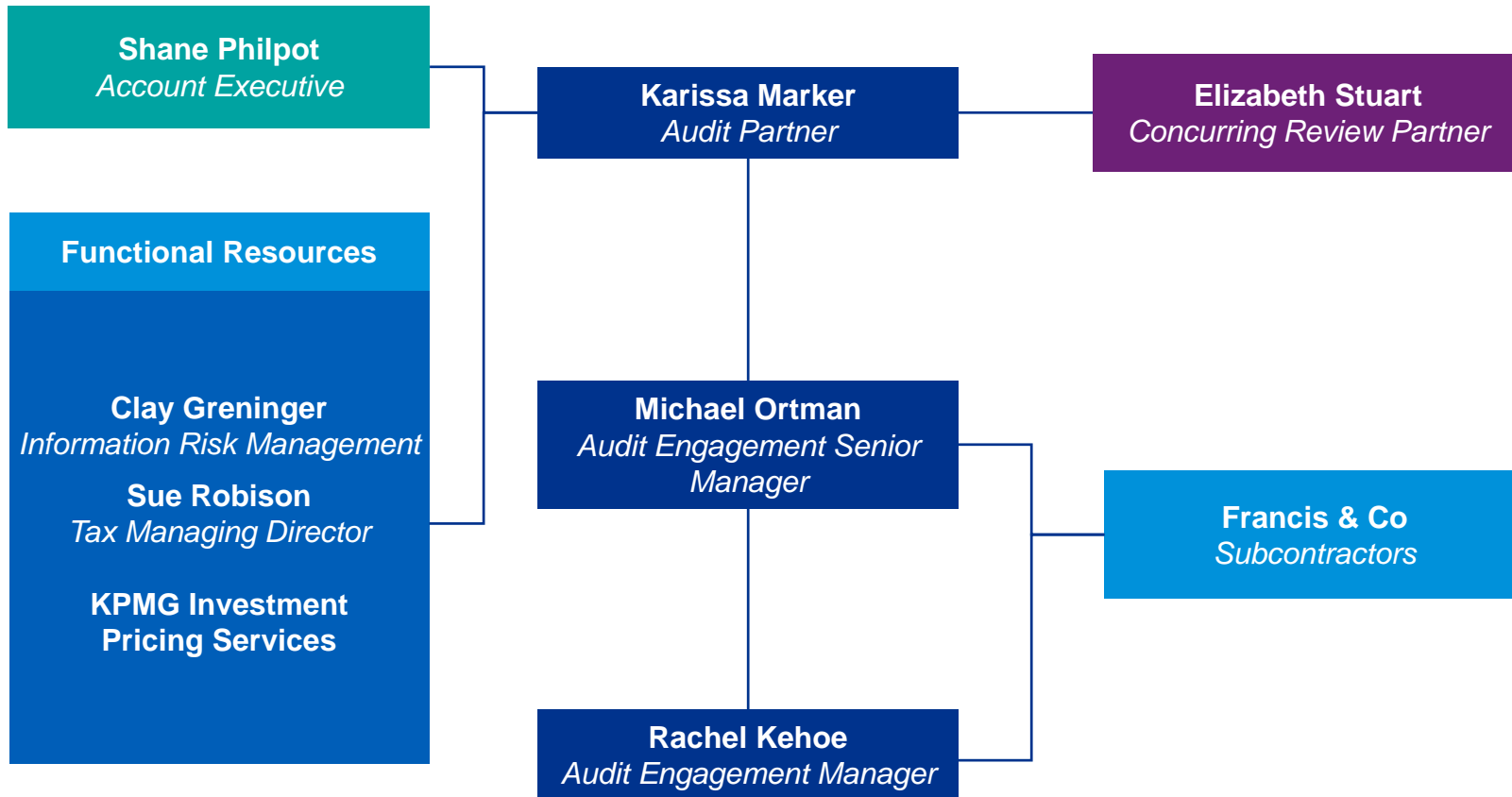
- Overview: Team and deliverables
- Financial statement audit
- Auditor's responsibilities and communications
- Single audit
- Agreed upon procedure reports
- Attestation report
- Other information
- Appendix I: Audit procedures

Presenters

- Karissa Marker
- Michael Ortman
- Rachel Kehoe

KPMG audit team

Sound Transit Engagement Team



Audit deliverables

- Audited financial statements
 - Opinion on financial statements
 - Single audit report in compliance with 2 CFR Part 200 Compliance Supplement
- Other reports
 - Agreed upon procedures – Subarea Equity
 - Agreed upon procedures – National Transit Database
 - Attestation report– Green Bonds
- Communications to the Audit Committee
 - Planning and year-end results briefings
 - Letter of required communications to Audit and Reporting Committee



Financial statement audit

Key areas of emphasis for the financial statement audit

— Key Processes and Controls

- Procurement and Contract Management
- Revenue Generation
 - Tax receipts
 - Grant receipts
 - Passenger fares
- Financial Management
- Human Resource Management
- Financial Reporting
- Risk Management

— Significant Account Balances

- Cash, Investments, and Interest Income
- Due to/Due from Governmental Agencies
- Capital Assets
- Debt and Capitalized Interest
- Construction Claims
- Net Position
- Federal and Other Government Contributions

Auditors' responsibilities for communication with the audit and reporting committee

Required communications

The Auditor's Responsibility under Auditing Standards Generally Accepted in the United States of America. Communicate responsibility assumed for the internal control structure, material errors, irregularities and illegal acts, etc.

Response

- Our audit was designed in accordance with GAAS and GAGAS to provide reasonable assurance that the financial statements of Sound Transit are free of material misstatement.
- We have the responsibility to obtain sufficient understanding of internal control to plan our audits and determine the nature, timing and extent of procedures to be performed.
- We noted no material errors, irregularities or illegal acts.
- We issued an unmodified opinion dated May 19, 2017 stating that the financial statements of Sound Transit are fairly presented, in all material respects, in accordance with GAAP.

Auditors' responsibilities for communication with the audit and reporting committee (continued)

Required communications

Significant Accounting Policies and Unusual Transactions. The Audit and Reporting Committee should be informed about the initial selection of and changes in significant accounting policies as well as the methods used to account for significant unusual transactions.

Response

- During the fiscal year, the Agency entered into the following significant and unusual transactions:
 - Additional debt issuance of \$400M, categorized as “Green Bonds”
 - Capitalization of the University and South 200th (Angle Lake) light rail extensions.

Auditors' responsibilities for communication with the audit and reporting committee (continued)

Required communications

Management Judgments and Accounting Estimates. The Audit and Reporting Committee should be informed about the process used by management in forming particularly sensitive accounting estimates, and about the basis for the auditor's conclusions regarding the reasonableness of those estimates.

Significant Audit Adjustments. All significant audit adjustments arising from the audit should be communicated to the Audit and Reporting Committee.

Response

- Key judgmental reserve and/or methodologies include:
 - Construction claims
 - Valuation of investments
 - Overhead allocations

- There were no significant audit adjustments arising from the audit identified by KPMG or by management.

Auditors' responsibilities for communication with the audit and reporting committee (continued)

Required communications	Response
<p>Passed Adjustments. Any material passed adjustments proposed by the auditor, but not recorded by the client, should be communicated to the Audit and Reporting Committee.</p>	<p>— There were no passed adjustments.</p>
<p>Disagreements with Management. Disagreements with management, whether or not satisfactorily resolved, about matters that could be significant to the financial statements or the auditors' report, should be communicated to the Audit and Reporting Committee.</p>	<p>— There were no such disagreements.</p>

Auditors' responsibilities for communication with the audit and reporting committee (continued)

Required communications	Response
<p>Difficulties Encountered in Performing the Audit. Serious difficulties encountered in dealing with management that relate to the performance of the audit are required to be brought to the attention of the Audit and Reporting Committee.</p>	<ul style="list-style-type: none">— We received excellent cooperation from Sound Transit's accounting team.
<p>Deficiencies in Internal Control. Any significant deficiencies in internal control encountered while performing the audit are required to be brought to the attention of the Audit and Reporting Committee.</p>	<ul style="list-style-type: none">— There were no significant deficiencies identified.
<p>Auditor Independence.</p>	<ul style="list-style-type: none">— KPMG is independent of Sound Transit.



Single audit

Overview of the testing of federal grant funding

— Audit Objectives

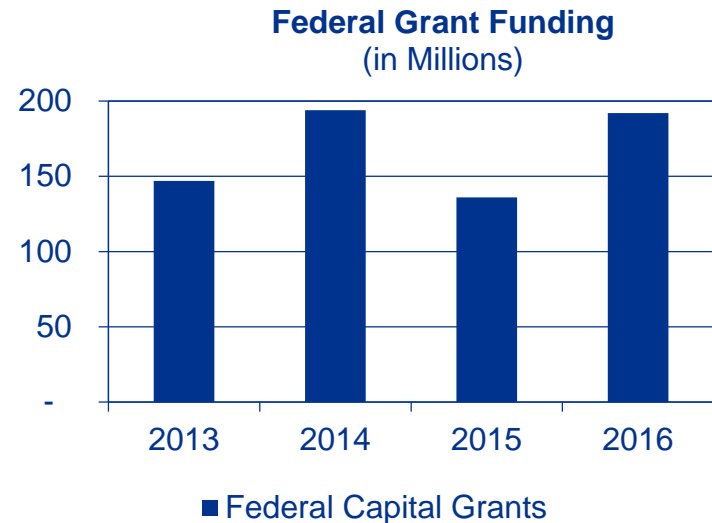
- Audit Sound Transit's financial statements and report on the schedule of federal awards in relation to those financial statements
- Audit compliance of federal awards expended during the fiscal year

— Major Program

- Federal Transit Cluster – \$94,297,267
- National Infrastructure Investment Fund – \$11,665,853

— Findings/Conclusions

- Unmodified audit opinion (Single Audit Report)
- No findings noted in the current year
- Report Issued May 19, 2017



Federal grants compliance requirements tested

1. Activities allowed or disallowed
2. Allowable costs/cost principles
3. Cash management
4. Equipment and real property management
5. Matching, level of effort, earmarking
6. Period of performance of federal funds
7. Procurement and suspension and debarment
8. Real property acquisition and relocation assistance
9. Reporting
10. Special tests and provisions – grant specific



Agreed upon procedures

Agreed upon procedures report: NTD

— National Transit Database Reporting:

- Testwork is completed and going through review process
 - Performing the 27 procedures prescribed by FTA
 - 3 findings have been identified related to one procedure (one finding for 3 of the modes) regarding the accumulation and presentation of statistical data within the NTD forms. Specifically, the information within the NTD forms did not agree to the underlying schedules and calculations. These findings will be included in the report and will be corrected on the next NTD submission.
 - Expected Issuance Date: Late June, 2017
- Procedures include:
 - Reviewing and testing policies and procedures, including internal controls for accumulating and reporting statistical data
 - Testing of statistical data including, but not limited to, miles operated, hours operated, and total boardings
 - Reviewing financial related information to ensure consistency with audited financial statements

Agreed upon procedures report: Subarea equity

Subarea Reporting:

- Sound Transit and the Citizens Oversight Panel (COP) developed procedures to be performed by KPMG to test the allocation of sources and uses of funds for subarea reporting
- Testwork is completed and going through review process
- No reportable findings currently identified
- Expected Issuance Date: Late June, 2017.

Attestation Report: Green bonds

Green Bonds:

- KPMG tested management's assertion that proceeds from the 2016 Green Bond Issuance were appropriately allocated to eligible Green Bond projects as of and for the year ended 12/31/16
- Issued our report on May 31, 2017
- Issued an unmodified opinion on management's assertions

ORCA financial statements

- ORCA implemented April 2009, and ST acts as fiscal agent for all agencies participating
- KPMG performed an audit of ORCA in the current year
 - Unmodified opinion issued on April 14, 2017
 - No material weaknesses or significant deficiencies, no proposed audit adjustments
 - Excellent cooperation from ST and the other participating agencies
 - Results presented to Joint Board

Other information

- KPMG Audit Committee Insights – U.S. and International editions (biweekly electronic publications): www.kpmginsights.com
- KPMG Audit Committee Institute Website: www.kpmg.com/aci
- KPMG Audit Committee Web casts – A quarterly update on key accounting and regulatory developments, designed exclusively for audit committee members. Visit www.kpmg.com/aci to register.



Appendix I

Audit procedures

Financial statements

Statements of net position		
Financial statement caption	Audit consideration	Significant audit procedures
Cash and Investments	<ul style="list-style-type: none"> — Accounting for cash and investments 	<ul style="list-style-type: none"> — Tested account reconciliations — Confirmed significant accounts — Tested the valuation of investments using KPMG-valuation specialist — Tested accuracy of disclosures, including restricted balances
Receivables	<ul style="list-style-type: none"> — Proper recording of revenues and collections — Accuracy of account balances — Collectability 	<ul style="list-style-type: none"> — Substantiation of A/R – Confirmation of tax revenues and receipt to date — Reviewed inter-government receivables and transactions

Financial statements (continued)

Statements of net position		
Financial statement caption	Audit consideration	Significant audit procedures
Capital Assets	<ul style="list-style-type: none"> — Proper capitalization of assets — Proper classification — Appropriate depreciation/amortization — Potential impairment of capital assets — Safeguarding of assets 	<ul style="list-style-type: none"> — Reviewed rollforward of property accounts — Performed analytical procedures to determine potential impairments — Reviewed contracts to test for the completeness of Asset Retirement Obligations — Reviewed and recalculated capitalized interest — Reviewed for reasonableness the accuracy of non ST owned assets — Reviewed transfers of capital assets and public asset expense

Financial statements (continued)

Statements of net position		
Financial statement caption	Audit consideration	Significant audit procedures
Other Assets	<ul style="list-style-type: none"> — Realizability — Proper classification 	<ul style="list-style-type: none"> — Tested reconciliation of accounts, as necessary — Tested significant additions to supporting documentation
Accounts Payable and Accrued Liabilities	<ul style="list-style-type: none"> — Recognition of transaction in proper accounting period — Accuracy of amounts recorded and assessment of “reasonableness” of accruals in judgmental areas or areas subject to estimates 	<ul style="list-style-type: none"> — Tested reconciliation of AP sub-ledger to the general ledger — Reviewed subsequent disbursements to ensure completeness of liabilities — Analytically reviewed year-end accruals for reasonableness — Tested allocation of overhead expenses

Financial statements (continued)

Statements of net position		
Financial statement caption	Audit consideration	Significant audit procedures
Long-term Debt	<ul style="list-style-type: none"> — Proper classification — Compliance with financial covenants 	<ul style="list-style-type: none"> — Reviewed rollforward of debt balances — Confirmed balances — Tested payments made during the year — Tested disclosures and classifications — Tested accounting treatment relating to Build America Bonds subsidy — Reviewed accounting treatment of debt refunding — Reviewed ST assessment and calculations of covenant compliance — Tested 2016 debt issuance

Financial statements (continued)

Statements of net position		
Financial statement caption	Audit consideration	Significant audit procedures
Net Position	<ul style="list-style-type: none"> — Proper classification and accurate reflection of activities 	<ul style="list-style-type: none"> — Recalculated classifications by agreeing detail to other areas of testwork
Passenger Revenue	<ul style="list-style-type: none"> — Proper revenue recognition 	<ul style="list-style-type: none"> — Agreed ORCA portion to audited ORCA income statements — Reviewed remaining balance of passenger revenue for reasonableness
Tax Revenue	<ul style="list-style-type: none"> — Proper revenue recognition — Proper classification 	<ul style="list-style-type: none"> — Proper revenue recognition — Proper classification — Confirmation

Financial statements (continued)

Statements of net position		
Financial statement caption	Audit consideration	Significant audit procedures
Grant Revenues	<ul style="list-style-type: none"> — Proper revenue recognition — Proper classification 	<ul style="list-style-type: none"> — Agreed grant revenue to amount reported in the Schedule of Expenditures of Federal Awards and audit work as part of the compliance audit
Operating Expenses <ul style="list-style-type: none"> — Salaries and benefits — Operations and maintenance — Supplies — Depreciation 	<ul style="list-style-type: none"> — Recognized in proper accounting period — Accuracy of amounts recorded 	<ul style="list-style-type: none"> — Performed a predictive analytic of accounts — Substantive test of detail on a sampling basis of recorded expenses — Analytical procedures over cost allocations and other expenses

Financial statements (continued)

Statements of net position		
Financial statement caption	Audit consideration	Significant audit procedures
Non-operating Revenues/expense	<ul style="list-style-type: none"> — Proper recognition and presentation 	<ul style="list-style-type: none"> — Variation analysis and predictive analytics — Detailed testing of overhead write-offs and impairments — Substantive testing of capitalized interest — Confirmation

Financial statements (continued)

Statements of net position		
Financial statement caption	Audit consideration	Significant audit procedures
KPMG Information Risk Management – IT Specialist	— Performed testwork of logical access, program change, and other computer operations over IT environment specifically related to accounting and financial reporting software	— No significant issues or findings
KPMG Tax	— Review financial statements to ensure compliance as a non-taxable government agency	— No significant issues or findings
KPMG valuation services	— Review of the market value of specific investments to ensure proper valuation as of year-end	— No significant issues or findings

Financial statements (continued)

Statements of net position		
Financial statement caption	Audit consideration	Significant audit procedures
Evaluate and test internal controls over major programs	<ul style="list-style-type: none"> — Allowability of expenditures — Proper authorization and review of expenditures — Controls over grant reporting 	<ul style="list-style-type: none"> — Reviewed the grant application and monitoring process and controls — Tested expenditures and payroll for allowability, classification and authorization
Verify compliance with laws, regulations and provisions of federal contracts and grants	<ul style="list-style-type: none"> — Compliance with general requirements 	<ul style="list-style-type: none"> — Reviewed applicable policies for compliance areas — Tested major programs for compliance with specific requirements

Financial statements (continued)

Statements of net position		
Financial statement caption	Audit consideration	Significant audit procedures
Financial statements are presented fairly	<ul style="list-style-type: none"> — Audited financial statements 	<ul style="list-style-type: none"> — Complete audit of financial statements in accordance with Generally Accepted Accounting Standards (GAAS) and Generally Accepted Government Auditing Standards (GAGAS)
Schedule of expenditures of federal awards is accurate	<ul style="list-style-type: none"> — Proper reporting of federal awards and funding — Recognition of grant revenue and expenditures 	<ul style="list-style-type: none"> — Agreed grant reporting of expenditures and reimbursement to schedule of federal expenditures — Agreed schedule of federal expenditures to audited financial statements

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Thank you



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