

**SAN MATEO COUNTY TRANSIT DISTRICT (DISTRICT)
1250 SAN CARLOS AVENUE, SAN CARLOS, CALIFORNIA**

**MINUTES OF AUDIT COMMITTEE MEETING
DECEMBER 9, 2019**

Committee Members Present: R. Guilbault, D. Pine

Committee Members Absent: None

Other Board Members Present: C. Groom (Chair)

Staff Present: J. Hartnett, J. Cassman, D. Hansel, J. Ye, A. Soe, G. Martinez, D. Olmeda, J. Brook

Others Present: A. Gharaibeh, Eide Bailly LLP

CALL TO ORDER

Chair Carole Groom called the meeting to order at 2:07 pm.

ROLL CALL

Assistant District Secretary Jean Brook called the roll. A quorum was present.

PUBLIC COMMENT

None.

APPROVAL OF MINUTES OF THE AUDIT COMMITTEE MEETING OF DECEMBER 3, 2018

Motion/Second: Groom/Pine

Ayes: Gee, Groom, Pine

Absent: None

SCOPE OF THE FISCAL YEAR 2019 AUDIT

Derek Hansel, Chief Financial Officer, gave a brief background on the audit.

Grace Martinez, Director of Accounting, said they have been working to ensure that they issue the CAFR (Comprehensive Annual Financial Report) in a timely manner. She said the purpose of the meeting was for the Board to interact directly with the auditors on the auditing process.

Ahmad Gharaibeh, Partner, Eide Bailly LLP, said that the financial statements in the 2019 CAFR were fairly stated. He noted that closing and reconciliation are becoming quicker since the process was taken over in 2017 by the California Department of Tax and Fee Administration from the Board of Equalization.

Committee Member Rose Guilbault asked what is meant by the term "clean opinion." Mr. Gharaibeh noted that there are three types of audit opinions – clean or unmodified, qualified, and adverse, and that "clean" indicates that the record was fairly stated.

Committee Member Guilbault asked for a definition of "GAAP." Ms. Martinez said it stands for generally accepted accounting principles, which are the guidelines used to prepare the CAFR. She noted that this method of accounting does not capture future revenues and can hide financial trends. Mr. Hansel added that GAAP accounting can lead to misleading conclusions, such as showing a liability with no corresponding asset.

Committee Member Guilbault asked Ms. Martinez how GAAP accounting can hide trends. Ms. Martinez said that GAAP gives a snapshot of a specific point in time and, as an example, it does not take into account future sales tax revenues.

Committee Member Guilbault asked for a definition of "limiting financial impairment." Ms. Martinez said it refers to the District's focus on finding cost-effective measures in delivering short-term services, such as keeping assets cost efficient with respect to their usage. Mr. Hansel said the District also looks at long-term financial assets and makes decisions about whether to pay down liabilities such as pension and OPEB (other post-employment benefits).

Committee Member Pine said that SamTrans should investigate this issue further now that it has access to Measure W funding. Mr. Hansel added that while more funds are available, sensitivity to the volatility of sales tax revenue is currently very high.

Jim Hartnett, General Manager/CEO, noted that SamTrans is working on a reserve policy and investing in pension and OPEB to address its unfunded liabilities.

Committee Member Pine asked about the source of the fare stabilization fund. Mr. Hansel said the reference was actually to a revenue stabilization fund and said that SamTrans was creating a reserve separate from the general operating reserve.

Committee Member Guilbault asked Mr. Gharaibeh about the District's expectations of the Board. Mr. Gharaibeh responded that his firm will advise the Board if there are any findings, adjustments, or exceptions.

Mr. Hartnett said that in the past when the CAFR did not have a clean opinion, that SamTrans worked very closely with the auditor. He noted that the recent addition of Measure W funding has put SamTrans on a more sustainable path.

Ms. Martinez said that the District is committed to releasing an accurate CAFR each year. She said that the Finance Department will later meet with the auditor to avoid making any mistakes. Mr. Hansel said they are now focused on tightening up the process.

STATUS OF THE FINDINGS NOTED IN THE FISCAL YEAR 2018 AUDIT

Mr. Gharaibeh said that in Fiscal Year 2018, the three agencies shared cash through intercompany receivables and payables. He noted the speed of billing for construction-related projects improved significantly over Fiscal Year 2017. Mr. Hansel said that the unbilled receivables for Caltrain peaked in October 2017.

Committee Member Pine asked about Measures A and W and how the District was doing regarding the issue of tax revenue generated by the airport. Joan Cassman, Legal Counsel, said that SamTrans is relying on the State of California, which has put forth a plan to the FAA (Federal Aviation Administration) and the US Department of Transportation. She noted that these federal agencies are not in agreement with the

state, which is working on new, more clearly defined legislation that would be more in line with the original intention of the regulation. Mr. Hartnett said that SamTrans needs to justify how expenditure of funds attributable to airport operations benefits the airport. Mr. Hansel said that they would have to do a forensic accounting exercise to determine that. Ms. Cassman remarked that the Board of Equalization does not account for the airport tax revenues very clearly.

STATUS OF ACCOUNTS RECEIVABLE AND GRANTS BILLING

Mr. Hansel said that there were significant accounts receivable from the Joint Powers Board. He noted that at the end of June 2017, Caltrain owed SamTrans approximately \$42 million for more than a year of regular services.

He asked if the Audit Committee wanted to meet annually or more often, e.g., both prior to and after the audit. Chair Groom said that meeting more often than once a year may not be necessary although it had been helpful to do in the past.

Mr. Hartnett said that the Board is free to contact the auditors directly with any questions.

ADJOURN

The meeting adjourned at 2:46 pm.