I. Public Comment:

II. Presentations:
   1. FY2017 Financial Audit
   2. Internal Audit Plan Status
   3. Finance Department Internal Controls Assessment
   4. Finance Report

III. Items for Future Discussion:

IV. Adjournment

ADA Compliance

Reasonable modifications and equal access to communications are provided upon request. Please call (512)389-7458 or email gina.estada@capmetro.org if you need more information.

BOARD OF DIRECTORS: Terry Mitchell, Chair; Wade Cooper, Pio Renteria and Juli Word. Board Liaison: Gina Estrada (512)389-7458, email gina.estada@capmetro.org if you need more information.

The Board of Directors may go into closed session under the Texas Open Meetings Act. In accordance with Texas Government Code, Section 551.071, consultation with attorney for any legal issues, under Section 551.072 for real property issues; under Section 551.074 for personnel matters, or under Section 551.076, for deliberation regarding the deployment or implementation of security personnel or devices; arising regarding any item listed on this agenda.
TITLE: FY2017 Financial Audit
CAPITAL METROPOLITAN TRANSPORTATION AUTHORITY

Presentation to the Finance, Audit and Administration Committee

Audit for the Year Ended September 30, 2017
Agenda

• Scope of Services
• Audit Overview
  - Financial Statement Audit Results
  - Federal and State Compliance Audit Results
• Required Auditor Communications
• Recommendations for Improvements
• Certificate of Achievement for Excellence in Financial Reporting
Scope of Services

• We were engaged by Capital Metro to:
  • Perform the audit of the Financial Statements prepared by Capital Metro staff in accordance with generally accepted government accounting principles
  • Perform the audit of Federal and State Awards and report on internal controls over financial reporting, tests of compliance for major programs and the Texas Public Funds Investment Act
  • Perform the required National Transit Database “NTD” agreed-upon procedures as required by FTA’s 2017 NTD Policy Manual
Audit Overview

• Financial Statement Audit Scope
  • Financial statements are prepared by management
  • Our procedures include
    • Examining evidence supporting amounts and disclosures on a test basis
    • Assessing internal control structure for purposes of auditing the financial statements, but not for providing an opinion on internal control
    • Assessing accounting principles, significant estimates made by management, and disclosures in the financial statements

• Financial Statement Audit Results
  • Opinion on the financial statements: Unmodified
  • No significant deficiencies in internal control were reported
  • Recommendations for improvements were provided
Audit Overview - continued

• Federal and State Compliance Audit Results
  • Report on State Compliance Audit: **Required in 2017.**
    • Texas Mobility Fund
    • Texas Emissions Reduction Incentive Program
  • Report on Federal Compliance Audit: **Required in 2017.**
    • Federal Transit Cluster
    • TIGER Discretionary Grant
  • Report on compliance for each major program: **Unmodified - No Findings Reported**
  • Report on internal control over compliance with laws, regulations, contracts and grant agreements, and other matters for each major program and the Public Funds Investment Act – **No Findings Reported**
Required Communications

• Management’s Responsibilities
  • Preparing and fairly presenting the financial statements in conformity with accounting principles generally accepted in the USA.
  • Establishing and maintaining effective internal controls
  • Adopting and following industry standard accounting policies
  • Identifying and confirming that Capital Metro complies with laws and regulations related to its activities

• Committee’s Responsibilities
  • Oversight of financial reporting process
  • Setting an appropriate tone for creating a culture of high ethical standards surrounding financial reporting and compliance
• Significant Accounting Policies

• Capital Metro follows Government Accounting Standards Board ("GASB") accounting standards.
• No new GASB standards were required to be adopted in 2017
• There were no changes in accounting policies previously used or significant changes in required disclosures.
• There were no accounting policies in controversial or emerging areas where there is a lack of authoritative guidance or consensus
Required Communications - continued

• Significant Accounting Estimates and Disclosures
  • Significant estimates
    • Far value of investments
    • Fuel hedge valuation
    • Estimated useful lives of capital assets which impacts depreciation expense
    • Pension plan expense and related liabilities
  • Significant financial statement disclosures
    • Investments
    • Fuel hedging
    • Notes payable (rail cars and bus replacement)
    • Pension expense and net pension liability
Required Communications - continued

• Significant difficulties encountered during the audit – none

• Uncorrected and corrected misstatements
  • Uncorrected misstatements – Pension expense overstated by $410,000, considered immaterial
  • Corrected misstatements – none

• Disagreements with management – none

• Received standard representation letter from management

• Management’s consultations with other accountants – none

• Other significant findings or issues – none
Recommendations for Improvements

- **Public Funds Investment Act**
  - Formally document quarterly investment reporting to the Finance, Audit and Administration Committee
  - Ensure all designated investment officers meet training requirements
  - Formally document annual review and approval by the Finance, Audit and Administration Committee of qualified brokers

- **Pension expense and liability calculation assumptions**
  - Consider mortality table improvements before and after the measurement date (none included for the period beyond the measurement date) (Bargaining Plan)
  - Contract for experience studies (both plans)
  - Ensure discount rate in the actuarial report agrees with the rate approved by the committee (Bargaining Plan)
  - Review and approve salary increase assumption before actuarial report is completed (Bargaining Plan)
Certificate of Achievement for Excellence in Financial Reporting

• The Comprehensive Annual Financial Report (CAFR) is a comprehensive disclosure document that communicates information to an audience including citizens, rating agencies, investors, regulatory bodies, insurance companies, etc.
  - Our responsibility is on our opinion on the financial statements.
  - However, we read the other information in the CAFR to make sure it is not inconsistent with the financial statements.

• Capital Metro submitted the 2017 CAFR to the Government Finance Officers Association (GFOA) for an additional quality review. Capital Metro has received the Certificate of Achievement for Excellence in Financial Reporting in the past and expects to receive the award for the 2017 CAFR.
QUESTIONS AND ANSWERS?
TITLE: Internal Audit Plan Status
TITLE: Finance Department Internal Controls Assessment
Internal Controls Assessment

FAA Committee Meeting
April 9, 2018
Finance Department – Internal Controls

• Management Responsibility
  – Design, implement & maintain
• Regulations vs. best practice
• Document, assess and test
• Project for FY 2018 – 2019
• Resources
Financial Report – Fiscal Year 2018

Year to Date February 28, 2018

Presented on April 9, 2018
Major Highlights

Revenue

• FY2018 sales tax revenue budgeted at 2.5% growth over FY2017
• Sales tax remittances received YTD January 2018 are 4.06% higher than YTD January 2017
• Capital contributions and grants are below budget due to timing of processing eligible paid expenses

Operating Expenses

• $92.5 million expended to date, or 37% of full year budget
• Year to date diesel cost of $1.95 per gallon is in-line with budgeted rate of $2.00 per gallon

Capital Projects

• FY2018 capital project budget of $151.5 million
• $20.6 million expended to date, or 13.6% of full year budget
  – Bus Replacements – 17 Transit Buses
• $51.6 million outstanding commitments have been issued, or 34% of full year budget
  – Positive Train Control, TIGER Grant Project, MetroRapid and Intelligent Transportation System
## Revenue

<table>
<thead>
<tr>
<th>$’ Million Category</th>
<th>FY18 Feb YTD Actual</th>
<th>FY18 Full Year Budget</th>
<th>% of Budget</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ridership</td>
<td>12,281,924</td>
<td>31,680,026</td>
<td>38.8%</td>
<td>Jan year-to-date positive variance of $1.3M Oct - Jan actual receipts; Feb accrued</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>$98.0</td>
<td>$234.1</td>
<td>41.9%</td>
<td></td>
</tr>
<tr>
<td>Passenger Fares</td>
<td>6.8</td>
<td>19.0</td>
<td>35.9%</td>
<td>$1.3M estimated full-year negative variance</td>
</tr>
<tr>
<td>Third Party Fares</td>
<td>2.8</td>
<td>6.2</td>
<td>46.1%</td>
<td>45G railroad tax credit - estimated $500K positive variance</td>
</tr>
<tr>
<td>Freight Railroad Revenue</td>
<td>1.9</td>
<td>4.1</td>
<td>47.1%</td>
<td></td>
</tr>
<tr>
<td>Other Revenue</td>
<td>1.9</td>
<td>3.0</td>
<td>62.9%</td>
<td>Timing of investment income</td>
</tr>
<tr>
<td>Operating Contributions and Grants</td>
<td>12.4</td>
<td>30.6</td>
<td>40.7%</td>
<td></td>
</tr>
<tr>
<td>Capital Contributions and Grants</td>
<td>3.3</td>
<td>38.5</td>
<td>8.7%</td>
<td>Timing of processing eligible paid expenses</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$127.3</strong></td>
<td><strong>$335.4</strong></td>
<td><strong>38.0%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Fare Revenue per Passenger</strong></td>
<td>$ 0.79</td>
<td>$ 0.80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Actual Sales Tax Receipts

$’M

<table>
<thead>
<tr>
<th>Month</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCT</td>
<td>17.1</td>
<td>17.8</td>
<td>18.5</td>
</tr>
<tr>
<td>NOV</td>
<td>16.9</td>
<td>18.5</td>
<td>19.5</td>
</tr>
<tr>
<td>DEC</td>
<td>22.6</td>
<td>22.8</td>
<td>25.1</td>
</tr>
<tr>
<td>JAN</td>
<td>16.2</td>
<td>17.4</td>
<td>18.5</td>
</tr>
<tr>
<td>FEB</td>
<td>16.1</td>
<td>18.1</td>
<td>20.2</td>
</tr>
<tr>
<td>MAR</td>
<td>20.1</td>
<td>17.9</td>
<td>17.8</td>
</tr>
<tr>
<td>APR</td>
<td>18.6</td>
<td>17.6</td>
<td>20.7</td>
</tr>
<tr>
<td>MAY</td>
<td>22.2</td>
<td>19.1</td>
<td></td>
</tr>
<tr>
<td>JUN</td>
<td>20.7</td>
<td>17.2</td>
<td>22.2</td>
</tr>
<tr>
<td>JUL</td>
<td>17.9</td>
<td>17.7</td>
<td></td>
</tr>
<tr>
<td>AUG</td>
<td>18.6</td>
<td>17.7</td>
<td></td>
</tr>
<tr>
<td>SEP</td>
<td>19.4</td>
<td>20.0</td>
<td></td>
</tr>
</tbody>
</table>

Total $221.3M $228.7M $79.6M
Sales Tax Trend

6 Month Annual Growth
4.2%

6 Month Annual Growth
1.9%

6 Month Annual Growth
4.0%
Sales Tax Rolling Average Trend

Capital Metro Six Month Rolling Average Sales Tax Growth Trend

Monthly Sales Tax Receipts

Jan-07 to Jan-18

Sales Tax Growth %

-15.00% to 15.00%
Job Growth Trend

2013 2014 2015 2016 2017 2018
0.0% 0.5% 1.0% 1.5% 2.0% 2.5% 3.0% 3.5% 4.0% 4.5% 5.0%

Job Growth %
## Operating Expense

<table>
<thead>
<tr>
<th>Category</th>
<th>FY18 Feb YTD Actual</th>
<th>FY18 Full Year Budget</th>
<th>% of Budget</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Hours</td>
<td>764,148</td>
<td>1,901,039</td>
<td>40.2%</td>
<td></td>
</tr>
<tr>
<td>Revenue Miles</td>
<td>10,757,258</td>
<td>26,844,169</td>
<td>40.1%</td>
<td></td>
</tr>
<tr>
<td>Salaries and Benefits</td>
<td>$16.6</td>
<td>$42.2</td>
<td>39.3%</td>
<td>$3M estimated negative variance for bargain pension adjustment</td>
</tr>
<tr>
<td>Professional Services</td>
<td>6.0</td>
<td>22.0</td>
<td>27.5%</td>
<td>Timing of spending on contracts</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>0.2</td>
<td>1.4</td>
<td>16.5%</td>
<td></td>
</tr>
<tr>
<td>Fuel and Fluids</td>
<td>4.3</td>
<td>12.4</td>
<td>34.5%</td>
<td>$614K favorable - $1.95/gallon actual cost versus $2.00/gallon budget</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.0</td>
<td>3.2</td>
<td>32.2%</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>0.3</td>
<td>1.0</td>
<td>31.8%</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>0.5</td>
<td>0.0</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Purchased Transportation</td>
<td>61.5</td>
<td>158.7</td>
<td>38.8%</td>
<td></td>
</tr>
<tr>
<td>Lease/Rentals</td>
<td>0.8</td>
<td>2.0</td>
<td>39.0%</td>
<td></td>
</tr>
<tr>
<td>Other Expenses</td>
<td>1.3</td>
<td>7.0</td>
<td>17.9%</td>
<td>Timing of software contract expense and unspent contingency</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$92.5</strong></td>
<td><strong>$250.0</strong></td>
<td><strong>37.0%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Cost per Revenue Hour: $121.08  $131.51
### Estimated Budget Variances

<table>
<thead>
<tr>
<th>Estimated budget variances - favorable/(unfavorable)</th>
<th>$ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>YTD January 2018 sales tax variance</td>
<td>$ 1.3</td>
</tr>
<tr>
<td>Section 45G railroad maintenance tax credit</td>
<td>0.5</td>
</tr>
<tr>
<td>Estimated full-year fare revenue variance</td>
<td>(1.3)</td>
</tr>
<tr>
<td>Rail state of good repair grant - 5337</td>
<td>(4.4)</td>
</tr>
<tr>
<td>Bargain pension plan adjustment (not cash)</td>
<td>(3.0)</td>
</tr>
<tr>
<td><strong>Total budget variances - favorable/(unfavorable)</strong></td>
<td>(6.9)</td>
</tr>
<tr>
<td>Operating expense contingency</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Net estimated variance</strong></td>
<td>$ (3.9)</td>
</tr>
</tbody>
</table>

Note: $3.9 million variance is estimated to be offset by vacancy savings, favorable spending on services and potential increases in Sales Tax receipts.
Cash, Investments and Reserves

Notes:

• Additional funding was allocated to the statutory operating and budget stabilization reserves based on the board approved funding formula. The statutory operating reserve equals 2 months of FY2017 estimated operating expenses. Contributions to the budget stabilization reserve began in February 2016 with $7 million reserved in FY2016 and $3 million in FY2017. An additional contribution of $3 million is budgeted for FY2018 in quarterly installments of $750,000 offset by board approved spending of $2 million for Downtown Station Storm Water Improvements.

• Funds for future capital investment will be required to help address extensive FY2018 capital needs. The capital budget for FY2018 is $152 million, with $69 million funded by FY2018 income and $83 million from reserves. Due to project delays $60 million of the FY2017 capital budget was carried forward to FY2018. These capital improvements are needed to get caught up with the state of good repair of the community's transit infrastructure and to be in compliance with Federal regulations.
## Capital Projects Summary

<table>
<thead>
<tr>
<th>Project Category</th>
<th>Expended</th>
<th>Outstanding Commitments</th>
<th>Budget</th>
<th>Expended &amp; Committed as % of Budget</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commuter Rail</td>
<td>$7,006</td>
<td>$28,754</td>
<td>$54,805</td>
<td>65.3%</td>
<td>Positive Train Control</td>
</tr>
<tr>
<td>Vehicles</td>
<td>8,574</td>
<td>443</td>
<td>15,121</td>
<td>59.6%</td>
<td>Bus Replacements - 17 Transit Buses</td>
</tr>
<tr>
<td>Information Technology</td>
<td>1,442</td>
<td>1,387</td>
<td>10,476</td>
<td>27.0%</td>
<td>Intelligent Transportation Systems Project</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1</td>
<td>5</td>
<td>2,000</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>Facilities</td>
<td>3,194</td>
<td>20,228</td>
<td>51,827</td>
<td>45.2%</td>
<td>TIGER Grant Project</td>
</tr>
<tr>
<td>Freight Railroad</td>
<td>5</td>
<td>65</td>
<td>3,895</td>
<td>1.8%</td>
<td></td>
</tr>
<tr>
<td>Property and Asset Mgmt</td>
<td>242</td>
<td>583</td>
<td>2,472</td>
<td>33.4%</td>
<td></td>
</tr>
<tr>
<td>Contingency</td>
<td>-</td>
<td>-</td>
<td>4,662</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>-</td>
<td>-</td>
<td>5,200</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Security</td>
<td>164</td>
<td>87</td>
<td>1,045</td>
<td>24.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$20,628</strong></td>
<td><strong>$51,552</strong></td>
<td><strong>$151,503</strong></td>
<td><strong>47.6%</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Outstanding commitments are for the purchase orders that have been issued.*
Questions/Discussion