MINUTES OF THE JUNE 30 MEETING OF THE RFTA AUDIT SUBCOMMITTEE

The meeting of the RFTA audit subcommittee began at 1 pm on Thursday, June 30, 2016. Those in attendance were as follows:

Current Audit Subcommittee Members:

1. **Ann Mullins**, City of Aspen**,**

2. **Markey Butler,** Town of Snowmass Village,

3. **John Lewis**, independent financial expert and Executive Director of Finance for Eagle County, and

External Auditors:

1. **Paul Backes**, CPA, Partner at McMahan & Associates, LLC

2. **Nicholas Graham**, CPA, McMahan & Associates, LLC

RFTA Staff:

2. **Dan Blankenship**, RFTA CEO

3. **Kelley Collier**, RFTA COO

4. **Michael Yang,** CPA, RFTA Director of Finance, and

5. **Paul Hamilton**, CPA, RFTA Assistant Director of Finance

Audit Subcommittee meeting expectations were forwarded to the committee in advance. The draft version of the audit report was also made available to the subcommittee prior to the meeting. Similar to prior meetings, the external auditor (Paul Backes) presented the audit report to the subcommittee and answered questions related to the report and audit process. RFTA staff was also available to answer questions. In addition, the meeting allowed time for the subcommittee to discuss the audit report without RFTA staff present.

The meeting proceeded as follows:

Paul Backes began the meeting with introductions and then discussed the steps that are performed in preparing an audit, including: the engagement letter, preparatory letter and scheduling, initial testing work and field work. Markey Butler asked Paul what sampling technique was used for the sampling of processes and Paul indicated that a statistical sample of 45-60 items was tested on anything with audit significance. Paul then indicated that any issues in the processes would appear in the management recommendation letter.

Markey then asked Michael Yang when his work began in light of the fact that he does produce monthly financial reports to the Board. Mike indicated that he and Paul Hamilton began the more detailed work and work papers right after year end and credited Paul for doing much of the work. Dan Blankenship then indicated that he uses the monthly reports to the Board as an opportunity to look for variances and identify any potential issues prior to year-end. Paul Backes then told a story about meeting Dan before RFTA was his client to discuss allocations from Glenwood and how he was impressed that Dan "really has his ducks in a row"!

Paul then indicated that RFTA produces over 320 work papers for the audit and that McMahon takes a 'Balance Sheet" approach to the audit. This means that they verify assets, liabilities and equity (fund balance) and then it is easier to prove and reconcile revenue and expenditures. Procedures include confirmation of bank accounts, investment accounts; receivable, payable and other account balances through independent means. The auditors were pleased with the cooperation that they received and issued a "clean opinion" (un-modified so "they are materially correct"). Paul also explained the required change in the wording of the opinion for the new federal "Uniform Guidance". Paul also indicated that there were minimal changes to the financial statements and in fact there were no adjusting entries required, which is an exceptionally good sign. Cooperation with management was good with no issues.

Markey then asked about the FTA requirements for the materials that were paid for and had to be replaced. Paul and Dan then explained that process and how the construction company (Gould) paid for 50% of that overage and that the materials were in storage per agreement with the FTA.

Ann Mullins then asked about how the "unbudgeted tax incentive for alternative fuel use" was handled since it was not approved until Dec. 2015 for all of 2015 and 2016. Dan explained how that was handled through the supplemental budgeting approval process. Ann then asked about overtime controls and Dan explained his hiring philosophy for bus drivers that has morphed over time.

Paul then reviewed pages C-1 and C-2 of the financial statements and while so doing, explained differences between government and typical corporate accounting presentations. He also discussed outside user needs of the financial statements (bond holders, federal government, grantors, etc.).

Paul then reviewed the meanings of the various fund balance descriptions. They include "Non-spendable", "Restricted", "Committed" and "Unassigned". "Non-spendable" consists of the inventory balance and prepaid expenses. "Restricted" fund balances are those that have been restricted by outside parties. "Committed" funds are those held in reserve similar to a "Rainy Day fund" and were committed by the RFTA Board based on an analysis performed by management. "Unassigned" fund balances are those that are available to cover immediate needs of the Authority and available for appropriation by the Board.

Markey then asked about the RFTA fund balance reserve policies, which were then explained by Michael Yang. A lengthy discussion followed and John Lewis explained how Eagle County at one time did not have the strong policies that RFTA currently has. It resulted in a greater than 20% layoff when the Great Recession hit. Paul Backes then reminded us all that "when the tide

goes out you can see who is not wearing a bathing suit" (a quote that we all decided to remember for future use!).

Paul Backes then continued to explain the fund statements as modified cash basis and then were adjusted to "Net position" so we could get both a long term and short term vies to understanding that financial condition to RFTA.

Dan then led a discussion regarding capital needs and indicated that RFTA refurbishes buses when it can to save dollars. HB 09-1034 authorizes RFTA, upon voter approval, to impose a mill levy (up to 5 mills) which RFTA has never requested and it sunsets in 2019. Dan indicated that RFTA may therefore need to request a mill levy from the voters, or extend the authority.
Paul Backes then discussed page D-21 where the various taxes are described and Dan indicated that a voter referendum would have to be approved in 2017 or 2018.

Paul Backes then continued to discuss the financials, the footnotes, and the "Federal Award Statements" pages F1- F6, which are statutorily required.

Paul then turned his attention to the "opportunities for improvement of internal controls" that his firm has made to RFTA management. He first explained that there are 3 types of management recommendations that his firm will make. They are: "Major weaknesses", "Significant weaknesses" and "Suggested improvements". His firm found no "Major" or "Significant" weaknesses and identified only 1 improvement to internal control. The suggestion had to do with the lack of segregation of duties in the accounts payable function during a vacancy and Michael Yang then indicated that finance found an alternative control to use in the future.

John Lewis then asked about the management letter suggestions that had been made in the immediate prior year. They were summarized as follows:

1) Inventory tracking issues and adjustments
2) Returned parts and reconciliations of vendor credits
3) Credit card chargebacks due to issues with ticket vending machines.

Paul Backes indicated that all of those issues had been resolved by management in the prior year. Additional discussion ensued regarding the vending machines and the status of "Gen Fare".

Management then left the room and allowed the audit subcommittee to ask questions of the auditors. Paul Backes indicated that there was nothing that he would not say in front of management. John Lewis reviewed audit committee responsibilities and goals as prescribed by the American Institute of Certified Public Accountants. It was agreed by the subcommittee and the auditors that those had been met based on the depth of our conversations over the previous two hours.

The meeting was then adjourned at approximately 3pm.