

AUDIT OVERSIGHT COMMITTEE MEETING FOR THE
METROPOLITAN TRANSIT SYSTEM (MTS),
SAN DIEGO TRANSIT CORPORATION (SDTC),
AND SAN DIEGO TROLLEY, INC. (SDTI)

October 23, 2008

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 9:24 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.
2. APPROVAL OF MINUTES

Mr. Mathis moved approval of the minutes of the June 5, 2008, Audit Oversight Committee meeting. Ms. Atkins seconded the motion, and the vote was 4 to 0 in favor, with Mr. Cox, Mr. Emery, and Mr. Rindone abstaining.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Draft Fiscal Year 2008 Comprehensive Annual Financial Report (ADM 110.12)

In response to a question from Chairman Ewin, Mr. Cliff Telfer, MTS Chief Financial Officer, reported that the process of presenting the Comprehensive Annual Financial Report (CAFR) is ahead of schedule.

Ms. Linda Musengo, Finance Manager, reported that the CAFR is largely completed. She stated that the only outstanding issue relates to the assessment of liabilities for claims, which cannot be finalized until letters have been received from all of MTS's attorneys. Mr. Ken Pun, Caporicci & Larson, confirmed that this process is best wrapped up toward the end of the process and stated that this is very typical. Ms. Musengo confirmed that none of the other outstanding issues would cause a delay in the completion of the CAFR. She stated that those items include the receipt of information on TransNet from SANDAG, the single audit, and procedures for TransNet, the Transit Development Act, and the National Transit Database.

Ms. Musengo provided a handout providing a recap of the various questions that may be asked in response to the information provided within the report. She also reported that this is the first time that the CAFR has provided comparative information. Ms. Musengo reviewed the balance sheet variances as outlined on the handout. In response to a question from the Committee, Ms. Musengo explained that MTS's liability for Other Post-Employment Benefits (OPEB) will be \$3.9 million and added that this figure was based on the results of an actuarial study. She stated that because another study will not be done next year, this figure will be the same for next year.

Mr. Rindone asked staff to look at the feasibility of having a different policy for new employees than the one MTS currently has for its existing employees and report back to the Board. Chairman Ewin stated that this item should be addressed by the Budget Development Committee. In response to a question from Ms. Atkins, Ms. Musengo explained that the OPEB issue will appear in the "subsequent event" portion of the CAFR because it had not yet occurred by June 30, 2008, the end of the period covered by the CAFR. Ms. Atkins asked if the audit meets the requirements of SAS 114, which deals with management's cooperation during the audit. Mr. Gary Caporicci, Caporicci & Larson, reported that this requirement has been met to date. Ms. Atkins requested that this be put in writing, and Chairman Ewin requested that the minutes reflect that request.

Ms. Musengo then reviewed income statement variances as outlined in the handout. In response to a question regarding the increase in workers' compensation expense, Mr. Lynch reported that this figure is volatile because it is based on a "snapshot" point in time. In response to a question about the increase in depreciation, Ms. Musengo explained that MTS now has a Capital Asset Accountant, who discovered that many buses that were on a 30-year depreciation schedule should have been on a 12-year schedule, and an appropriate adjustment has been made. Mr. Telfer added that this adjustment simply better reflects the value of MTS's current assets and has no financial impact on the company.

Ms. Musengo reported that a note will be included in the CAFR explaining how the recent financial crisis will impact MTS and will probably be the last note that is written. She added that another note will be written related to the sale/leaseback and lease/leaseback arrangements that MTS entered into in 1990 and 1995 for trolley cars. She stated that Internal Revenue Code rules have changed regarding these types of transactions and some companies are being required to pay back the tax benefits that were lost by the purchaser/lessor. Ms. Lorenzen stated that the federal courts have ruled that the Internal Revenue Service can "claw back" on this issue. Ms. Musengo reported that no repayment request has been made to date, but a note must appear in the CAFR that indicates that a request may be made in the future for repayment of tax benefits. Mr. Telfer pointed out that MTS's transaction is different from that of other companies in that the purchasers of MTS's agreements were foreign jurisdictions, and this may explain why MTS has not been contacted about repayment. Ms. Lorenzen reported that staff is participating in conference calls to determine the potential extent of MTS's liability. She added that MTS has not been contacted by the Internal Revenue Service to date.

Mr. Monroe objected to the fact that there was no qualitative data included in the audit. It was pointed out that the CAFR deals strictly with financial issues and that performance issues are covered by performance audits and triennial and other audits conducted by the Federal Transit Administration. Ms. Lorenzen pointed out that the FTA has conducted five different audits of MTS in specific areas over the last few months. Ms. Cooney pointed out that MTS also completed a peer review of its Information Technology Department. Chairman Ewin stated that the Board of Directors authorized the Audit Oversight Committee to deal with financial audits only. Mr. Ewin stated that this should be reflected in management comments, and Ms. Musengo stated she would change the CAFR's Letter of Transmittal. It was also pointed out that MTS has an Internal Auditor, who conducts audits of MTS processes. Chairman Ewin stated that variances may highlight issues that should

be further explored to see if there is a performance issue. He stated that staff should determine how to address those cases. Mr. Caporicci stated that the General Accounting Standards Board will be issuing guidelines regarding performance audits next year.

Chairman Ewin stated that the Audit Oversight Committee should have as much time as possible to review the CAFR before it is presented again to the Executive Committee on November 6. He also stated that he thought the CAFR should reflect the Board's action to establish the Audit Oversight Committee.

In response to a question from Mr. Rindone, Mr. Caporicci explained that only about ten percent of the organizations they audit are funding their OPEB liability. Mr. Rindone requested a summary of the decisions made by those transportation agencies, cities, counties, water boards, etc. and that the list include the financial size of those agencies.

In response to a brief report and question from Mark Abbey, Internal Auditor, Chairman Ewin directed Mr. Abbey to consult with Ms. Lorenzen on a case-by-case basis regarding the distribution to Board members of audits containing sensitive information.

Committee members were asked to address any questions they have to Mr. Telfer with a copy to Chairman Ewin.

Action Taken

No action was taken on this item.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no Committee communications.

D. PUBLIC COMMENTS

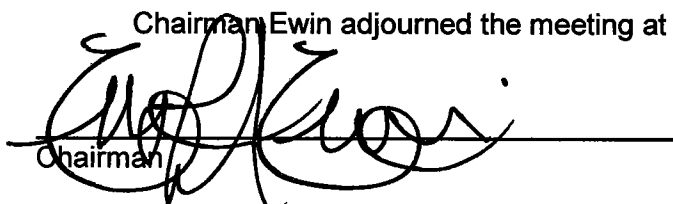
There were no public comments

E. NEXT MEETING DATE:

The next meeting will be held on Thursday, November 6, 2008, in the Executive Conference Room.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 10:32 a.m.



Chairman

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 10/23/08 CALL TO ORDER (TIME) 9:24 a.m.

RECESS _____ RECONVENE _____

CLOSED SESSION _____ RECONVENE _____

ADJOURN 10:32 a.m.

BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
ATKINS	<input checked="" type="checkbox"/> (Young) <input type="checkbox"/>		
EMERY	<input checked="" type="checkbox"/> (Cafagna) <input type="checkbox"/>		
EWIN	<input checked="" type="checkbox"/> (Clabby) <input type="checkbox"/>		
MATHIS	<input checked="" type="checkbox"/>		
MONROE	<input checked="" type="checkbox"/> (McLean) <input type="checkbox"/>		
RINDONE	<input checked="" type="checkbox"/> (Emery) <input type="checkbox"/>		
ROBERTS	<input type="checkbox"/> (Cox) <input checked="" type="checkbox"/>		

SIGNED BY OFFICE OF THE CLERK OF THE BOARD Gail Williams

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: [Signature]