



AUDIT COMMITTEE MEETING MINUTES

June 29, 2011

Metro Regional Center

1:30 p.m., Conference Rm. 270

Members Present: Jason Stanley, Chairman (Citizen member)
Grant Jones, Vice Chair (Citizen member)
Kathryn McLaughlin (Citizen member)
Andrew Carlstrom (Citizen member)
Kathryn Harrington, Metro Councilor-District 4
Terry Goldman, MERC Commissioner
Suzanne Flynn, Metro Auditor
Margo Norton, Director of Finance & Regulatory Services

Staff and Other: Don Cox, Metro Accounting Compliance Manager
Attendees: Tim Collier, Deputy Director, Finance & Regulatory Services
Julia Fennell, MERC Controller
Karla Lenox, Metro Financial Reporting Supervisor
Jim Lanzarotta, Partner/Moss Adams
Nancy Young, Sr. Manager/Moss Adams

1. The meeting commenced with Suzanne Flynn welcoming everyone and introducing a new Committee member, Kathryn McLaughlin. Kathryn replaces Mike Laney, who resigned from the Committee earlier in the year, and is serving a 2-year term. Grant Jones' term was extended another 4 years.
2. Auditor Flynn discussed the new Metro Code approved last year that created the Audit Committee as advisory to Council. The Auditor's Office assists in nominating members and provides administrative support for the Committee.
3. **Election of Chairperson and Vice Chairperson:** Andrew Carlstrom volunteered to act as Chairman on the committee for the next year, replacing Jason Stanley. Terry Goldman will serve as Vice Chairman. The Committee meets 2-3 times each year.
4. **Bond ratings:** Margo Norton spoke about the bond ratings from S & P and Moody's. Both agencies gave top (AAA-AAa) ratings to Metro's recent bond offerings (Natural Areas and Oregon Zoo Infrastructure and Animal Welfare). S&P has just recently reconfirmed Metro's AAA rating. The rating process included phone interviews and a written questionnaire. The ratings will be very important to Metro in FY 2011-12 and FY2012-13, when Metro next expects to be issuing bonds.

The Natural Areas bond measure approved in 2006 was for \$227 million, of which \$125 million was issued in 2007. Since then, Metro has been focused on acquiring and stabilizing properties in targeted areas. However, acquisitions are slower than expected due to the economy. This is a "willing seller" program, and property owners have been reluctant to negotiate sales while the values are down. Margo noted that we have had to carefully

document this issue to explain the reason for not spending the bond funds more timely. There is \$40 million remaining from the first bond measure.

Kathryn Harrington commented that Metro has oversight committees for each bond program. They are responsible for watch dogging projects, reporting to Council and posting progress reports on our website.

Margo added that each bond measure requires that the external auditors perform specific examinations, which must be reported annually in a "newspaper of general circulation," as well as in our financial statements.

5. **FY2010 Letter to Management Response status.** Tim Collier, Deputy Director/FRS, reported on the status of last year's financial audit recommendations. Progress has been made on the recommendations, with all having been fully implemented or nearing implementation. See attached Progress Report for detail on each recommendation.
6. **Moss Adams presentation:** Nancy Young and Jim Lanzarotta spoke to the Committee on preliminary and future work on the FY 2011 external audit. This begins the fifth fiscal audit Moss Adams has performed, and they are in the second year of a three-year contract with Metro.

Nancy and Jim covered the standard areas of the audit process: nature of services and timeline, as well as new and upcoming audit standards. New GASB pronouncements include:

GASB No. 54 – Fund Balance Reporting for Governmental Funds (effective 2011). This new pronouncement concerns how fund balances are classified and reported. Enterprise funds (MERC and Solid Waste) are not government funds and do not require this treatment. GASB 54 will be implemented in the FY 2010-11 budget year and will be displayed in the financial statements this fiscal year. In preparation for this statement, the Metro Council adopted the necessary policies in June 2010.

GASB No. 59 – Financial Instruments Omnibus. No significant impact to Metro expected.

Group Audits – the audit standard states that the engagement partner "be responsible for the direction, supervision and performance of the audit." Jim Lanzarotta commented that if there is another auditor involved, such as the separate Oregon Zoo Foundation audit, Moss Adams must state in their report that they have "relied" on the work of qualified others.

Component Units – there was discussion of what comprises a component unit and level of materiality for reporting purposes. The Oregon Zoo Foundation has been a component unit since 2003, and financial information from OZF's audit are incorporated in Metro's CAFR. Metro has determined that the Friends of PCPA are not a component unit at this time, following a formal reexamination last year. Metro has provided notice to the Friends of PCPA that a change in activity, particularly a major capital campaign for the Main Street Project and Schnitzer Hall upgrade may change this finding. It has yet to be determined whether the Friends of PCPA would be a component unit of Metro, the operator of the facilities, or of the City of Portland, the owner of the buildings.

Pronouncements in the Works – Some would impact Metro, which is detailed in the attached presentation by Moss Adams. Discussed was the Pension plan reporting requirement – if the plan is underfunded, that portion goes on the balance sheet. Jason Stanley, who is Audit Director with PERS, commented that the PERS fund is up to 88% funded, after the deep earnings loss of the past years.

7. **Capital Assets** – Don Cox spoke on capital asset reporting. They have made adjustments to bring assets up to standard. There has been work done on Open Spaces (1995) and Natural Areas (2007) bond properties, tying back TIN's to properties, with 85% of the properties being identified. Improvements made to trails are capitalized, although some work connecting trail segments has occurred on property that Metro itself does not own. Metro is considering whether this may require a restatement of prior reported values.

Kathryn Harrington inquired about natural disasters and how they impact capital asset values. An example would be floods that cause bank erosion at Oxbow Park. Moss Adams' recommendation was to write it off.

8. **Communications with Audit Committee** – It was discussed and agreed that the auditors will contact the Committee should a major issue arise, such as fraud or disagreement with management. Audit progress status reports will be provided to the Chairman and Suzanne Flynn. Moss Adams' audit staff will be onsite most of October for fieldwork.

NEXT MEETING

The next Committee meeting will be scheduled for late November 2011 to review audit results and the CAFR draft.

The meeting adjourned at 2:50 pm.