

ZONE 7 BOARD OF DIRECTORS
SUMMARY NOTES OF THE FINANCE COMMITTEE

December 4, 2018
9:00 a.m.

Directors present: Sandy Figuers
Angela Ramirez Holmes
Dick Quigley

Staff present: Valerie Pryor, General Manager
Osborn Solitei, Treasurer/Assistant General Manager, Finance
Teri Yasuda, Acting Accounting Manager
Amanda Rogers, Acting Executive Assistant

President Ramirez Holmes called the meeting to order at 9:03 a.m.

1. Public Comment on Items Not on the Agenda

There were no comments from the public.

2. Draft Comprehensive Annual Financial Report (CAFR) for the Year Ended June 30, 2018, and the Auditor's Report (Memorandum on Internal Control and Required Communications)

Mr. Osborn Solitei, Treasurer/Assistant General Manager, Finance, gave a brief overview stating that the purpose of the audit was to ensure compliance with generally accepted accounting principles and current financial reporting requirements. He stated that the Agency accounts for its activities using separate funds: 1) governmental funds for flood protection, DIF, and grant funds and 2) proprietary funds for water enterprise activities. He then introduced David Alvey, Vice President/Partner with Maze & Associates, the Agency's independent external auditors.

Mr. Alvey explained that the purpose of the audit was to review the Agency's financial statements and make sure they are correct and free from material errors. He congratulated the Agency, and announced that the audit opinion for the Agency is an unmodified "clean" opinion. This is the highest level of assurance that a CPA firm can give and is a testament to the Agency's strong internal accounting control practices. Mr. Alvey drew attention to a few new developments:

- The recent implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, having to do with other post-employment benefits (OPEB). The Agency's situation is unique because the County's pension plan distributes half of any excess money over the discount rate for the pension plan into OPEB and half into the pension plan. As a result, the other post-employment benefit liability was listed at around \$300,000, which is quite small based on the size of the Agency.
- The issuance of Water Revenue Bonds in the amount of \$64 million to finance the 2018 water projects and refund the Cawelo capital payment. The bond proceeds are in restricted cash.

- The change from cash and investments being pooled with the County fund to managing some of our own investments, which has increased investment income from \$1.4 million to \$2.9 million.

Mr. Alvey also presented the Memorandum on Internal Control and Required Communications, stating he did not encounter any difficulties in performing the audit and found no material misstatements, no significant misstatement and no disagreement with management. He then asked if there were any questions from the Committee.

President Ramirez Holmes asked for clarification of what deferred outflows and deferred inflows mean. Mr. Alvey explained that they are a smoothing vehicle used over the course of five years so that pension liabilities don't spike from year to year.

President Ramirez Holmes, noting the greatly reduced County pension liability, asked about the reason for the reduction. Directors and staff discussed several scenarios of what could cause the reduction, for example, increased investment returns. President Ramirez Holmes asked that the answer be made available by the next full Board meeting.

President Ramirez Holmes requested an explanation of how the 115 Trust works. Mr. Alvey replied that because the trust is an ACERA trust, it wouldn't be able to net against net pension liability but would probably yield a better return. President Ramirez Holmes asked if the 115 Trust would count against our liability. Mr. Alvey replied that the cash would show as restricted cash because it is in the 115 Trust, not the ACERA trust, but it would not count against the liability on the financial statements.

President Ramirez Holmes said she understood that the credit card audit wasn't able to be completed this period. Mr. Alvey confirmed that was true. It will be scheduled for the early part of 2019 and results will be reported back to the Finance Committee based on agreed-upon procedures. President Ramirez Holmes asked to see those agreed-upon procedures; Mr. Alvey said he would provide them. Director Quigley agreed with the need for this information.

President Ramirez Holmes asked for questions from the audience.

Linda Kelly, a Pleasanton resident, mentioned that she was unable to find any mention of funds 300 and 310 in the report and felt they should be included. Mr. Solitei replied that they are on pages 76 and 77 of the report. President Ramirez Holmes noted that they are not labeled but Water Facilities is Fund 300 and Water Supply and Reliability is Fund 310.

Mr. Solitei gave a presentation about the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2018. He summarized the purpose of the audit and the year-end financial statements for the Agency.

President Ramirez Holmes questioned what happened to the money for rate stabilization and drought emergencies. Mr. Solitei replied that the fund balance of \$12.9 million was allocated to operating reserves at target level or 90 days of operations and emergency reserves at the target level or at around 2.5% of the Water Enterprise Assets. There were no funds available to allocate to the drought contingency and the rate stabilization reserves. Also, the fund balance or reserves reported at the fourth quarter report are different due to some expenditures that were booked as part of the audit, for example, the election cost. Ms. Pryor explained that the water enterprise reserves are the same as the fund balance; it's available cash. President Ramirez Holmes asked if the election costs were different from the estimate that the County had given us. Mr. Solitei replied that the election costs were more than usual because of the cost of purchasing new voting equipment. Ms. Pryor added that it is typical for counties to divvy up the cost of

elections among their various agencies. President Ramirez Holmes expressed concern because the cost was double the amount anticipated.

In response to President Ramirez Holmes question about the money in the cash and investments category of the report, Ms. Pryor replied that they come from developer impact fees. She explained that the funds are restricted to be used for capital projects related to growth. By investing the funds ourselves and matching investments to timing of projects, the Agency has the ability to invest funds in long-term maturities, which have higher interest rates. Where the County pool has shorter duration because their participants can pull money out at any time.

President Ramirez Holmes asked if the cash and investments followed the Agency's investment policy. Ms. Pryor replied that the auditors make sure that it's in conformance with the policy. Mr. Alvey explained they go line by line through the investments to make sure it follows the Agency's investment policy or California state code, whichever one is more restrictive.

President Ramirez Holmes asked why they didn't get the analytical review questions. Mr. Alvey replied that he would get those to the Committee.

The Finance Committee unanimously approved forwarding the item to the Board with a recommendation to accept the Independent Auditor's Report and the Comprehensive Annual Financial Report along with the answers to the questions that were posed in today's Committee meeting.

3. Verbal Reports

President Ramirez Holmes announced that while the Finance Committee will have regularly scheduled meetings from now on, the January Finance Committee meeting has been cancelled. She emphasized that she wants to use these regularly scheduled meetings to review the reserve policy and the pension liability in the next few months. Ms. Pryor replied that those are on the upcoming planning calendar. Director Figuers added that he will not be here the first two weeks of February but will be available the last two weeks in February. President Ramirez Holmes replied that we may have to reschedule the meeting that month.

4. Adjournment

President Ramirez Holmes adjourned the meeting at 9:46 a.m.