



**VALLEY COUNTY WATER DISTRICT
MINUTES FOR THE SPECIAL MEETING OF THE FINANCE COMMITTEE HELD
THURSDAY, MARCH 12, 2015**

Committee Members Present: Director Margarita Vargas, Chairperson
Director Lenet Pacheco, Co-Chairperson

Staff Present: General Manager – Lynda Noriega
Finance & Customer Service Manager – Jandy Macias

Other Present: Mr. Wilson Lam – Moss Levy Hartzheim LLC

A. CALL TO ORDER

A special meeting of the Finance Committee meeting held Thursday, March 12, 2015 was called to order at 1:02 pm by Director Vargas.

B. DISCUSSION/INFORMATION ITEMS

- 1. Review DRAFT 2013-2014 Audited Financial Statements**
- 2. Review DRAFT Resolution of the Board of Directors of Valley County Water District Adopting the Audited Financial Report for the Fiscal Year Ended August 31, 2014**
- 3. Review DRAFT Resolution of the Board of Directors of Valley County Water District Transferring Funds Unappropriated as of August 31, 2014 to the Capital Improvement and Replacement Fund**

- General Manager reported that Moss Levy Hartzheim LLC completed and prepared the 2013/2014 audited financial statements and the 2013/2014 management report; introduced Mr. Wilson Lam as the representative of Moss Levy Hartzheim LLC who worked with the District in completing the audit and preparing the draft reports
- Mr. Wilson Lam – Moss Levy Hartzheim LLC
 - Stated that representatives of Moss Levy Hartzheim LLC audited the financial statements and reviewed the internal controls of the District; reported that they issued an unmodified opinion for the financial statements, which conveys they believe that the financial information provided within the reports was fairly presented; stated that the firm utilized reasonable assurance rather than actual assurance when completing the audit, meaning that the firm did not verify every number presented, but rather used its assessment of internal controls as an indicator in assuring that the figures were fairly presented; reported that the format of the audit report was similar to the audit reports provided in previous years; reported that in review of the Statement of Net Position, or balance sheet, the District showed a \$3.7 million loss in total current assets when comparing 2014 and 2013, which was a result of the recent property purchases; added that there was also a decrease in current liabilities in the amount of \$1.0 million when comparing 2014 and 2013, which was a result of the fulfillment of the CalPERS Side Fund Obligation and the reduction in Unearned Revenue; noted that the unrestricted net position and total operating expense ratio fell to 96% in 2014, as compared to 107% in 2013 due to the overall increase in total operating expenses and overall reduction in total current assets; explained that this ratio was important since the District's total net position of just over \$71 million included approximately \$59 million in capital assets that were not liquid

- General Manager explained that capital assets that were not liquid included items like wells, pumps, and pipelines, which were items that the District acquired using cash, understanding that these assets would not be available for payment of future expenses
- Mr. Lam explained that the District experienced an increase in change in net position, which is the difference in the total revenues and total operating expenses of the District; reported that the statement showed \$2.4 million in prior period adjustments, which was approved by the members of the Board of Directors as part of the the negotiations and settlement with the Cooperating Respondents (CRs) for resolution of nitrate management at the Baldwin Park Operable Unit Sub Area 1 (BPOU SA1) Treatment Facility
- General Manager stated that in March 2014, the Board of Directors considered approving the agreement between the District and the CRs with respect to how the BPOU SA1 Treatment Facility would treat nitrate contamination; reported that the settlement agreement included provisions for the CRs taking financial responsibility for the water supply and treatment expenses incurred in relation to the Maine Street Granular Activated Carbon (GAC) Treatment Facility, the Clinton O. Nixon East GAC Treatment Facility, and the Clinton O. Nixon West GAC Treatment Facility; highlighted that a full explanation was provided as Note 6 within the Notes to Basic Financial Statements: Cooperating Respondents Receivable – Water Treatment Plant Construction; continued and referred to Note 10 of the Notes to Basic Financial Statements: Public Employee Retirement System Side Fund; recalled that Mr. Lam referred to the District paying off the CalPERS side fund obligation; stated that as a result of fulfilling the obligation, the District received a reduction in rates on pension contributions as required on behalf of the employees participation; continued and referred to Note 13 of the Notes to Basic Financial Statements: Post Employment Benefits Other than Pensions; stated that the Board of Directors approved changes to the Administrative Code with respect to the criteria for employees becoming eligible for other post employment benefits (OPEBs) other than pensions, including medical, dental, and vision insurance benefits; stated that changes in the eligibility criteria included a longer term of service at the time of retirement, increasing the qualifying age from 50 to 55, and limiting benefits to the employee and their spouse or registered domestic partner; explained that the District would not realize the benefits of the change in policy for several years since it was approved for all new employees hired by the District on or after June 1, 2014; added that several of the current employees were grandfathered under the original policy, of which several were not yet close to retirement age
- Mr. Lam notified the District that it would have to consider management and implementation of GASB 68 in the 2014/2015 fiscal year; stated that the District would be required to record the actuarial pension liability on the State of Net Position; explained that he believed that the District already retained CalPERS to conduct the actuarial pension liability valuation
- General Manager stated that GASB 68 was similar to the concepts and requirements imposed with the valuation and recordation of the CalPERS Side Fund; added that the District would not know the amount of the liability until the actuarial valuation was complete; commented that when the valuation was determined, it would be presented to the members of the Board of Directors with a recommendation for managing and funding the liability
- Mr. Lam continued with the presentation:
 - Stated that the Management Report and Auditors Communication Letter began with the required communication under Auditing Standards No. 114, which listed any significant audit findings, the auditor's responsibility, management's responsibility, including any issues that were defined during the audit process
 - Stated that the next section of the report was the Government Auditing Standards Letter, which reviewed the internal controls of the District, although it did not provide an official opinion on internal controls
 - Stated that the auditors defined one significant deficiency with regards to the internal controls over cash receipts; explained that during the audit of internal controls administering cash receipts, it was determined that a Customer Service Representative was able to void any cash receipt entry; recommended that the District restrict the ability of the Customer Service Representatives to void cash receipt entries by requiring an approval from a supervisor or manager; added that the District responded and implemented all of the prior year recommendations made by the auditors for addressing and enhancing internal controls
- General Manager explained that under the previous procedures and processes, any Customer Service Representative was able to void a cash receipt transaction, whether it be in response to a customer request for

changing their form of payment or to correct a data entry error; reported that the Customer Service Representatives were now required to have a supervisor or manager authorize the voided transaction; stated that the District has not had any issues with how the previous procedures and processes were administered; recognized that the auditors recommendations would create additional internal controls over cash receipt transactions for the District

- Director Pacheco inquired how much more time would be needed by a supervisor or manager to process and approve the voided transaction
- General Manager stated that it would not add much time to the transaction since a supervisor or manager would always be readily available for assistance
- Director Vargas recalled that last year's recommendation involved an issue with inventory control; inquired if the inventory issue had been resolved
- General Manager stated that the recommendation regarding inventory control was implemented; added that there were no additional recommendations from the auditors with respect to the inventory processes
- Mr. Lam recalled that the inventory control issue was recommended two years ago and had been corrected; thanked the General Manager and her staff for their assistance with the audit process; reported that the audit firm was still in the process of finalizing the report; explained that the managing partner of the firm, Mr. Craig Hartzheim, still needed to review the completed Management Discussion & Analysis report
- General Manager commented that the audited financial statements and the management report would not be presented to the members of the Board of Directors for consideration until the regular meeting scheduled after April 15 due to current scheduling conflicts with representatives from Moss Levy Hartzheim LLC
- Director Vargas requested to discuss the draft resolutions presented in the agenda packet
- General Manager stated that two resolutions would need to be considered by the members of the Board of Directors, including a resolution adopting the final audit report as prepared by Moss Levy Hartzheim LLC and a resolution appropriating the net position of the District to the Capital Improvements and Replacement Fund
- The Finance Committee consented to recommend the audited financial statements, the completed management report, Resolution 03-15-760, and Resolution 03-15-761 for consideration by the members of the Board of Directors at the first regular meeting following April 15, 2015 to allow representatives of Moss Levy Hartzheim LLC to be in attendance

C. ADJOURNMENT

The special meeting of the Finance Committee held Thursday, March 12, 2015 was adjourned at 1:28 pm by Director Vargas.

SIGNED:



President of the Board of Directors

ATTEST:



Secretary of the Board of Directors

(OFFICIAL VCWD SEAL)