SUMMARY NOTES OF THE FINANCE COMMITTEE
ZONE 7 BOARD OF DIRECTORS

December 8, 2014
4:00 p.m.

Directors present:	Sandy Figuers Angela Ramirez Holmes Sarah Palmer
Staff present:	Kurt Arends, Assistant General Manager, Engineering Margaret Chun, Accounting Manager Judy Rector, Board Secretary

Director Figuers called the meeting to order at 4:05 p.m.

1. Public Comment – Letter from Margaret Tracy

Margaret Tracy presented copies of her letter to the Finance Committee and the public regarding contamination in groundwater. She asked the Finance Committee members if there is action reflected in the financial report (audit) to remove the contamination and when will it occur?

2. Annual Financial Statements for Year Ending June 30, 2014 and Auditor's Reports

Margaret Chun, Accounting Manager, introduced David Alvey and Tim Krisch from Maze and Associates with the annual financial audit for the year ending June 30, 2014. Ms. Chun stated that the purpose of the meeting is for the auditors to answer questions.

Director Palmer asked that the auditor put their company name on the Independent Auditor's Report. The final version will be on letterhead but this is a draft.

Director Ramirez Holmes asked Mr. Krisch and Mr. Alvey to present an overall highlight and walk the Committee through the process. Mr. Krisch said the purpose of an audit is to 1) verify or confirm that the financial statements are fairly stated and materially correct – the numbers are accurate; and 2) test internal controls. The Board hired the auditors to verify that the policies and procedures the Board has adopted are being followed by management and staff. The primary areas they look at are cash receipts, cash disbursements and payroll. They are testing these areas against policies adopted by prior boards. The auditors' determined that the agency will receive an unmodified opinion, which was called an unqualified opinion in the past. It is a clean opinion, the highest level of assurance auditors' can issue for an organization, and it is extremely positive and good news. As far as internal control testing, the auditors' found no material weaknesses or significant deficiencies, nor do they have any other subject matter that they want to elevate to management or the Board that should be considered from an operational standpoint that may or may not impact finances.

Director Ramirez Holmes asked the auditors to walk the Committee members through some of the numbers because they are presented differently than what the Committee members are used to seeing. Mr. Krisch noted that the format is mandated by the Government Accounting Standards Board

(GASB) and presents the results of what transpired in the past year. The Management Discussion and Analysis is highlighting the changes between the fiscal years ending June 30, 2013 and June 30, 2014.

The variances between what Finance sees and what the Board sees on a regular basis is typically at the fund level. Mr. Krisch recommended concentrating on the fund level for governmental funds as this is the type of information the Board has been receiving throughout the course of the year and is what the budget is based on prior to entering into a new fiscal year.

Mr. Krisch directed the Committee members to Page 19 of the report to see how actual results compare to budget. The Flood Protection Operations fund results came in much more favorably than budgeted because property taxes were higher than anticipated, and actual expenditures were less than projected. Director Ramirez Holmes asked about the $10 million variance in Flood Protection expenditures and the approved budget. Ms. Chun said that actual maintenance activities related to storm damage were much less than anticipated due to a light storm season.

Director Ramirez Holmes asked if there is a summary page like page 19 for the other funds and was told there isn't one because GASB requires budget to actual reporting for governmental funds only.. Mr. Krisch said it is not a requirement to do it for enterprise funds but could be done for supplementary information. Director Palmer requested that it be done in the future.

Ms. Chun said there were no budget-to-actuals reports in previous audits except for the governmental funds. Director Ramirez Holmes asked if it was titled differently and Ms. Chun replied that when the financial software was changed and updated, the names of the funds were changed to be more descriptive; the same reports are included in the audit document, but the fund names were revised. Director Ramirez Holmes asked if Ms. Chun could run budget-to-actuals for the Committee members and have it ready by the next board meeting as a supplement to the agenda item. Mr. Arends asked for clarification. The Committee requested budget-to-actual reports for all operating and capital funds such as 100, 110, 120, 130 and 210, but staff will start specifically with Fund 100 and progress from there based on available time.

Director Figuers asked if the actual fund number could be put in the title because the name of the fund changes but the fund number would remain the same. Ms. Chun said for the fiscal year ending June 30, 2014, the names and the numbers were both changed. Director Ramirez Holmes suggested a footnote reference guide to help them clearly understand. Director Figuers also noted that on the left-hand side there is a listing of what each line is and asked if it could also be put on the far right-hand side to assist them with staying on the correct line when the information is spread over two pages. He also asked for a note saying "negative for revenue" or revenue/expenses because it is not clear. Director Ramirez Holmes said if a summary like Page 19 was included for all funds, variances such as the $10 million variance between the Flood Protection Operations fund budget and actual expenditures would be reported. Changes to the report would be evaluated given the short turnaround to finalize the report.

Mr. Krisch changed from discussing governmental funds to proprietary funds and the change in net position. He repeated that it is a summary of what the position is of the district in assets and liabilities as of June 30, 2014, one date in time and the end of the fiscal year. He then noted the net position of sources and uses of the funds, what were the revenues collected as far as operating and non-operating, and what were the operating expenses and any non-operating expenses broken down by fund.

Director Figuers asked Ms. Chun to create a list of capitalized projects that show up as part of the $18 million and it was explained that Page 8 of the Basic Financial Statements had an explanation of capital assets and debt administration. Director Palmer asked if bullets could be used in the future.

Director Figuers said that last year the Committee had requested that if there were variances of 10% or more that they be listed separately as it saves the Committee members time if they can get a list of them rather than flipping pages.

Director Ramirez Holmes added that the Committee members had asked the auditors last year for an opinion on what percentage would be viewed as a signal for budget variance control and recalled that 5% was suggested. Committee members asked last year if that should be put into a policy and were told no because those things will be called out and come back to the Board but now she feels it will have to be put into the policies. Ms. Chun asked if they were looking for that information in terms of a staff report that would go along with the audit and was told yes, along with any other variance items that were in the report or other instances which would have triggered that variance control. Director Figuers agreed and asked if they could have a one-or-two sentence explanation of why the variance occurred, such as drought projects, because the information is scattered throughout the audit. Director Ramirez Holmes added that the discussion at the last audit meeting was that when they see a jump in a budget area, it should not be a surprise to them and often it is because they do not know in advance that it is coming so it jumps out at them.

Mr. Krisch said it is up to Committee members what level of detail they want within the confines of their audit report and that further analysis and detail of the fiscal year activities could be included in the Management Discussion and Analysis, which is an executive summary of what went on throughout the year.. Last year there was discussion about quarterly budget actual information and the auditors do their analytical review by taking total assets and revenue and averaging them within 5% to 10%; if something stands out, they question why. He recommended that if Committee members wanted to do that on a quarterly basis he recommended putting it into the policy. Director Figuers said he supports 10% so it highlights the bigger variances.

Director Ramirez Holmes asked if there is a specific number for Zone 7's unfunded liability. Mr. Krisch said they would have to get it from Alameda County Employees Retirement Association but that reporting requirements are changing as of June 2015. He believes it is part of the County number as whole, will be called Net Pension Liability, and that information will be available in the future. She then asked if there would be any changes the auditors would recommend to the Finance Committee to improve the Board's oversight in terms of policy. The auditors said they would like to develop a timeline for developing communication and possibly a workshop with the Finance Committee.

Mr. Krisch said the auditors are looking at the financial health of an entity, how well the Board, management and staff are doing, what is the overall environment (the culture of the organization), and he described ways to measure the results of their internal control testing and if the internal controls the Board has adopted are being followed.

Director Palmer stated that despite a few suggestions by the Committee members, she thought the audit was fair.

Ms. Chun said she thought the Monthly Report was designed to help answer the Board's questions. Director Ramirez Holmes said the Monthly Report is helpful but the concern is that the Board members never see the budget to actuals when the fiscal year is done and by the time they catch the call-out details, it is months later. It was suggested that a quarterly summary would be beneficial Director Ramirez Holmes said a format like Page 19 with a footnote explanation is what they want.

Mr. Arends asked if the Committee supports bringing the audit to the Board next week and was told yes. He said it is a clean audit and a lot of questions had to do with budget and budget tracking. The Committee members commended staff for doing a nice job.

3. Verbal Reports

Director Ramirez Holmes said there had been discussion in the recent past about setting a regular meeting date and time for the Finance Committee which could be cancelled if not needed. In January she would like the Committee members to look at a 2015 calendar to figure out a work plan for the Committee with a regular meeting date and time. Director Palmer asked if the Finance staff could provide the markers such as water rates, budget or audit. The directors agreed that at the next meeting, Finance and Accounting staff can tell them what the upcoming items are and by what dates they need to be reviewed.

Director Figures proposed another agenda item to find out the history of reserve levels. Staff created the actual dollar amounts for the reserve levels and they were approved by the Board but he has no idea how those dollar amounts were decided or if there are records of how those amounts were decided. This is Step 1 of looking at the policy. Mr. Arends said some reserve levels are based on a percentage and Director Figuers asked how that percentage was determined, the process of creating those reserve levels.

Director Ramirez Holmes asked and was told that the topics of the January 8 Finance Committee meeting will be operating budget process and the FY 15-16 development process. Mr. Arends said it is an attempt to touch base early in the budget process and the Directors responded favorably.

4. Adjournment

Since there were no further issues or comments, the meeting was adjourned at 5:05 p.m.