TRABUCO CANYON WATER DISTRICT
FINANCE/AUDIT COMMITTEE MEETING RECAP | MARCH 14, 2018

DIRECTORS PRESENT
Director Don Chadd, Committee Chair
Director Glenn Acosta, Committee Member

STAFF PRESENT
Hector Ruiz, General Manager
Michael Perea, District Secretary
Karen Warner, Senior Accountant
Lisa Marie Sangi, Administrative Assistant
Jason Stroud, Maintenance Superintendent

DISTRICT CONSULTANTS PRESENT
Cindy Byerrum, District Treasurer – Platinum Consultants Group
Paul Kaymark – Platinum Consultants Group

PUBLIC PRESENT
There were no members of the public present

CALL MEETING TO ORDER
Director Chadd called the March 14, 2018, Finance/Audit Committee Meeting to order at 6:02 P.M.

VISITOR PARTICIPATION
No visitor participation was received.

ORAL COMMUNICATION
No oral communication was received.

COMMITTEE MEMBER COMMENTS
Director Chadd commented on the District's emergency water pipeline break on Silvertree Lane, and mentioned that he was made aware of the project due to alerts on social media outlets and the sounds of construction. Director Chadd added that he briefly walked by the work site and commented on the high level of District staff professionalism working at the site.

Director Acosta had no comments.

REPORT FROM THE GENERAL MANAGER
Mr. Ruiz reported that Water Operations and Maintenance staff responded to an emergency water pipeline break on Silvertree Lane as Director Chadd highlighted, and mentioned that shortly after the repair was completed, another section of the pipeline downstream ruptured. Mr. Ruiz added that Water Operations and Maintenance staff isolated, repaired the secondary pipeline break, and restored water service to the affected customers by the end of the day.

ITEM 1: FINANCE/AUDIT COMMITTEE MEETING RECAP

The February 14, 2018, Finance/Audit Committee Meeting Recap was presented to the Committee.

RECOMMENDED ACTION:

Director Chadd and Mr. Perea approved and recommended that the February 14, 2018, Finance/Audit Committee Meeting Recap be received and filed by the Board (Consent Calendar).

ITEM 2: RATIFICATION OF DIRECTORS' FEES AND EXPENSES, TENTATIVE FUTURE MEETINGS/ATTENDANCE ITEMS

The Committee reviewed the information presented. Director Chadd commented that he had provided comments regarding his schedule to Mr. Perea.

RECOMMENDED ACTION:

The Committee recommended that the Directors' expenses and fees for February, 2018, and the tentative future meetings be forwarded to the Board for ratification (Consent Calendar).

ITEM 3: DISCUSSION CONCERNING AUDITING SERVICES PERFORMED FOR TRABUCO CANYON WATER DISTRICT

Ms. Byerrum introduced Mr. Paul Kaymark to the Committee. She mentioned that he was formerly with The Pun Group, the District's current Auditing Firm, and he worked on the District's audit for the prior three years. Ms. Byerrum recommended that the Board authorize District staff to issue a request for proposals for a new auditing firm due to key organizational changes at The Pun Group. Discussion occurred concerning the current year audit timeline for completion.

RECOMMENDED ACTION:

The Committee received the information concerning the matter, and recommended that the matter be forwarded to the Board for discussion (Action Calendar).

ITEM 4: TRABUCO CANYON WATER DISTRICT'S FISCAL YEAR 2017/2018 MID-YEAR BUDGET REVIEW

Mr. Ruiz presented this matter for Committee review, and he mentioned that the District's General Policy and Rules and Regulations allow for a semi-annual budget review. Mr. Ruiz added that Ms. Byerrum was in attendance to answer any questions from the Committee concerning the matter, and that District staff recommends that the Committee recommend that the Board approve the Proposed Amended Fiscal Year 2017/2018 General Fund Budget. Ms. Byerrum commented that the District currently utilizes true fund accounting principles, and that the new Financial Software System that was implemented in December 2017 has allowed accounting staff to separate the one fund budget into a two fund budget for the purpose of tracking water and sewer revenues and expenses. Mr. Byerrum added that District staff proposes to develop a third fund to track recycled water revenues and expenses beginning July 1, 2018. President Acosta asked Ms. Byerrum if certain funds were re-appropriated due to the change from one fund to two funds; Ms. Byerrum affirmed that certain funds were re-appropriated, and she highlighted the challenges associated with the data migration during the implementation process of the new financial system while separating the funds simultaneously. She also expressed confidence in the new method as it will fully demonstrate the financial health of the funds. Ms. Byerrum reported to the Committee that unfortunately the adopted Fiscal Year 2017/2018 General Fund Budget working document calculations did not include the projected expenses from the sale of Baker Water Treatment Plant water to the City of San Clemente. Ms. Byerrum apologized for this error, but commented that the Proposed Amended Fiscal Year 2017/2018 General Fund Budget has corrected this error. Director Chadd

expressed appreciation for Ms. Byerrum's honesty concerning the mistake, and commented that it was good that staff caught the mistake.

Ms. Byerrum presented the Proposed Amended Fiscal Year 2017/2018 General Fund Budget for Committee review, and highlighted the following matter(s):

Operating Revenue, Total Operating Revenue:
Ms. Byerrum reported that this line item was higher than originally budgeted due to the impact of the water, wastewater, and recycled water rates adopted in 2015.

Non-Operating Revenue, Total Non-Operating Revenue:
Ms. Byerrum reported that this line item was higher than originally budgeted due to the actual revenues from property taxes and interest returns to the District, as well as a refund from the Municipal Water District of Orange County (MWDOC) on costs associating with the preparation of the 2015 Urban Water Management Plan. Ms. Byerrum added that the District typically budgets conservatively on property tax revenue.

Operating Expenses, Supplies & Services:
Ms. Byerrum reported that due to the new two fund budget, and the re-apportionment of incurred costs associated with water versus sewer costs, that District staff recommends this line item budget be reduced to zero.

Operating Expenses, Total Operating Expenses:
Ms. Byerrum reported that this line item was higher than originally budgeted, but it is a more accurate representation of the District's incurred costs to date.

President Acosta commented on the Net Income (Loss) Before OPEB and Depreciation and Capital Contributions line item.

Director Chadd commented that errors, as indicated by Ms. Byerrum, do occur in the financial world, but expressed appreciation for Ms. Byerrum and District staff's efforts in presenting the Proposed Amended Fiscal Year 2017/2018 General Fund Budget. Ms. Byerrum expressed her appreciation for the Committee's understanding concerning the matter. Ms. Byerrum proposed minor changes to the ancillary line items on the Balance Sheet that are not necessarily indicators of the District's financial health.

RECOMMENDED ACTION:
The Committee received the information, and recommended that the Board approve the Proposed Amended Fiscal Year 2017/2018 General Fund Budget (Action Calendar).

ITEM 5: DISCUSSION AND POSSIBLE ACTION(S) CONCERNING MUNICIPAL WATER DISTRICT OF ORANGE COUNTY (MWDOC) PROPOSED FISCAL YEAR 2018/2019 RATES, CHARGES, AND BUDGET

Mr. Ruiz presented this matter for Committee review, and he briefly reviewed the MWDOC Budget Process and Schedule, which indicated that the Second Draft Budget was currently under review. Mr. Ruiz added that MWDOC has requested member agency feedback and comments on the Second Draft Budget, and that the District has not submitted any budget-related comments at this time. Mr. Ruiz added that the Second Draft Budget will be reviewed at the MWDOC Elected Officials Forum scheduled for April 5, 2018; Director Acosta requested that Mr. Perea coordinate with MWDOC for both he and Vice President Safranski to attend the Elected Officials Forum. Director Chadd reported that the next South Orange County Agencies' Group Meeting is

scheduled for March 29, 2018, and it will be a Joint Meeting with representatives from MWDOC and Orange County Water District (OCWD). Director Chadd added that the Joint Meeting is an opportunity for South Orange County Agencies' Group to learn more about the MWDOC Budget development process.

RECOMMENDED ACTION:
The Committee received the information concerning the matter. No recommendations were made.

ITEM 6: DISCUSSION AND POSSIBLE ACTION(S) CONCERNING TRABUCO CANYON WATER DISTRICT'S PROPOSED FISCAL YEAR 2018/2019 GENERAL FUND BUDGET

Mr. Ruiz presented this matter for Committee review, and he mentioned that there was no action required. Mr. Ruiz commented that District staff is currently preparing the Fiscal Year 2018/2019 General Fund Budget, and that he would appreciate any preliminary feedback from the Committee related to the budget. Director Chadd asked if there were any unknowns in the proposed budget that require Committee review; Mr. Ruiz responded that he is reviewing the augmentation of current staffing levels in light of the current workload. Mr. Ruiz added that more information will be presented at the following Finance/Audit Committee Meeting. Discussion occurred concerning the District's Budget review process; Mr. Ruiz mentioned that a Draft Budget will be presented to the Finance/Audit Committee prior to the Board.

RECOMMENDED ACTION:
The Committee received the information concerning the matter. No recommendations were made.

ITEM 7: DISCUSSION AND POSSIBLE ACTION(S) CONCERNING THE DISPOSAL OF DISTRICT SURPLUS PROPERTY (VEHICLES)

Mr. Ruiz presented this matter for Committee review, and he mentioned that action was required on this matter. Mr. Ruiz mentioned that Mr. Stroud has identified certain vehicles in the District's fleet that are at end-of-life or have been determined to be uneconomical for use. He briefly reviewed the Property and Equipment Survey Report as prepared by Mr. Stroud in accordance with the District's Policy Regarding the Disposal of Surplus Property Other Than Real Property. Mr. Ruiz added that both he and Mr. Perea reviewed the Survey Report for consistency, and that five of the six vehicles have been replaced to date. Discussion occurred concerning the existing condition of certain vehicles designated for disposal.

RECOMMENDED ACTION:
The Committee received the information concerning the matter, and recommended that the Board authorize the General Manager to dispose of District surplus equipment in accordance with the District's Disposal of Surplus Property Policy Other Than Real Property (Action Calendar).

ITEM 8: OTHER FINANCE AND ADMINISTRATION PROJECTS

1. *Utility Billing and Financial Management System Replacement update:*

Mr. Perea reported that both the Financial and Utility Billing portions of this project are complete, and as such, the project will no longer be agendized for review. Mr. Perea identified certain challenges experienced during the data migration and implementation portions of the project, and he expressed his appreciation for Ms. Warner, Ms. Sangi, and Ms. Byerrum's assistance during the project. Director Chadd asked Ms. Warner for her assessment of the new systems; Ms. Warner expressed her satisfaction with the new systems. Ms. Sangi briefly highlighted the built-in mass notification system that was used earlier in the day to notify the District's customers on Silvertree Lane of the emergency water line break and subsequent repairs.

2. Other Projects
There were no other projects discussed.

RECOMMENDED ACTION:
The Committee received the information. No action was taken.

ITEM 9: OTHER MATTERS

Mr. Ruiz commented that there were no other matters for discussion.

Director Chadd briefly discussed the District's domestic water supply history. He commented that the District previously would issue a Domestic Supplementary Water Invoice to recycled water customers whose demand placed a greater strain on recycled water supplies requiring supplementation with domestic water to meet their increased demand. Director Chadd added that there are certain recycled water users that benefit from the recycled water system and cost savings, but do not contribute to the wastewater system, such as the Dove Canyon Golf Course and T-Y Nursery. Director Chadd commented that he requested that Mr. Ruiz revisit this matter. Discussion occurred concerning the District's urban water recovery system and adverse impacts of recycled water users that do not contribute to the wastewater system. Director Chadd commented that a nursery that has a business plan of growing non-native plants should not reap the benefits of the recycled water system and reduced recycled water rates without contributing to the wastewater system. Director Chadd formally requested for this matter to be agendized for Board discussion at the March 21, 2018, Regular Board Meeting. President Acosta commented that discussion regarding any proposed changes to the District's recycled water rates should involve the respective stakeholders. Discussion occurred concerning the notification process requirements for changes to District water rates and charges, as well as clarification concerning the appropriate stakeholders in this situation, and also clarification concerning the State Water Board Mandatory Regulations related to agricultural versus residential water user irrigation practices.

RECOMMENDED ACTION:
The Committee received the information, and directed the General Manager to agendize the review of the District's Recycled Water Rates for the March 21, 2018, Regular Board Meeting (Action Calendar).

ITEM 10: FINANCIAL REPORT

Ms. Byerrum presented the unaudited financials for January, 2018, for Committee review, and mentioned that this matter was discussed at length as Item No. 4. Ms. Byerrum provided revised handouts of the Investment Schedule and Checking Account Activity Reports for Committee review.

RECOMMENDED ACTION:
The Committee recommended that the Board receive and file the unaudited Financial Statement for January, 2018, as presented (Consent Calendar).

ITEM 10B: FINANCIAL REPORT

Mr. Ruiz presented the bills for consideration for March 14, 2018.

RECOMMENDED ACTION:
The Committee signed the bills for consideration and the warrant register, and recommended that the Board ratify payment of the bills for consideration for March 14, 2018, as presented (Consent Calendar).

ADJOURNMENT
Director Chadd adjourned the March 14, 2018, Finance/Audit Committee Meeting at 6:46 PM.