

ACWA/JOINT POWERS INSURANCE AUTHORITY

Unapproved 1/29/09

Approved 3/19/09

FINANCE & AUDIT COMMITTEE MEETING

JPIA CONFERENCE ROOM

5620 Birdcage Street, Suite 110

Citrus Heights, CA 95610

Thursday, January 29, 2009

MEMBERS PRESENT

Chairman: Eldon Boone, Vista Irrigation District

Mark Gardner, Wheeler Ridge Maricopa Water Storage District

Dennis Michum, Glenn-Colusa Irrigation District

Steve Ruetters, Kern County Water Agency

Tom Scaglione, Vallecitos Water District

MEMBERS ABSENT

Michael Grandy, El Toro Water District

Suha Kilic, Pebble Beach Community Services District

STAFF PRESENT

Chief Executive Officer: Daniel N. Klaff

Chief Financial & Operations Officer: Walter "Andy" Sells

Dick Damon, Claims Manager

David deBernardi, Director of Finance

John Gilstrap, Director of Member Services

Nancy Stangel, Director of Administration

Dianna Sutton, Accounting Manager

Jeanette Waterstradt, Executive Assistant to the CEO

Bobbette Wells, Administrative Assistant II

OTHERS PRESENT

Merle Aleshire, Valley Center Municipal Water District

Ken Al-Imam, Mayer Hoffman McCann P.C.

Tom Cuquet, South Sutter Water District

Joseph Dion, Citrus Heights Water District

Joan Finnegan, Municipal Water District of Orange County

E.G. "Jerry" Gladbach, Castaic Lake Water Agency

Nancy Jones, PFM Asset Management LLC

W.D. "Bill" Knutson, Yuima Municipal Water District

Bill Malone, Metro/Risk, JPIA Insurance Broker

Robert J. Noonan, Orchard Dale Water District

Lou Reinkens, Tahoe City Public Utility District

WELCOME

Chairman Boone called the meeting to order at 1:00 p.m. and welcomed all in attendance. He noted that the Finance & Audit Committee had a quorum. Mr. Sells introduced the new ACWA/JPIA Director of Finance, David deBernardi, to the Committee. Mr. deBernardi is known to most of the Committee members as an auditor from Gilbert Accountancy, that had performed the annual audits prior to the current firm.

ADDITIONS TO OR DELETIONS FROM THE AGENDA

Chairman Boone asked for any changes to the agenda. None were noted.

MINUTES

Chairman Boone asked for approval of the minutes for the meeting of July 29, 2008.

M/S/C (Scaglione/Michum) (Yes – 4, No – 0): That the minutes of the Finance & Audit Committee meeting of January 29, 2008, be approved as presented.

REVIEW AND TAKE ACTION ON DRAFT AUDITED FINANCIAL STATEMENTS

Chairman Boone introduced Mr. Al-Imam of Mayer Hoffman McCann P.C. Mr. Al-Imam's firm, for the third year, completed the JPIA's financial audit for the fiscal year ending September 30, 2008.

Mr. Al-Iman reported that the JPIA is in a strong financial position. Reported assets of \$117.9 million dollars have risen 5.5% from the prior fiscal year. That increase was mostly in the form of cash and investment balances. The liabilities in 2008 were \$79.5 million, slightly less than in the prior year. In the fiscal year 2007-2008, revenues exceeded expenses by \$6.8 million. Revenues were about \$4.5 million higher than the prior year, the primary reason being the changes in the Retrospective Premium Adjustment (RPA). Expenses remained relatively unchanged from the prior fiscal year. The three major expense categories are claims losses for about \$8.2 million, excess insurance at \$8.4 million, and general and administrative expenses at \$4.9 million.

In 2008 new auditing standards were in effect that expanded the scope of the auditor's risk assessment. The auditors found the JPIA's management team appropriately monitors and enforces compliance and procedures, as relayed in the employee handbook. There were a few minor enhancements to consider of internal control submitted to management, in writing, that would be helpful. They dealt with payroll, cash disbursement approval limits and enhanced documentation of review functions.

Mr. Al-Iman reported that the financial statements received an unqualified opinion, which is the highest opinion the statements can receive. The opinion stated that the financial statements presented fairly in all respects, the financial position of ACWA/JPIA as of September 30, 2008. Mr. Al-Iman stated his awareness that the Committee had a few adjustments to the audit report, as well as a report submitted by Mr. deBernardi with observations. The audit report will be updated and forwarded to the Committee for review. If any objections to the report are noted, it will be put on the agenda at the next meeting on March 19, 2009.

M/S/C (Ruettggers/Michum) (Yes – 4, No – 0): That the Finance & Audit Committee approve the audited financial statement with the proposed changes and forward to the Executive Committee for approval.

REVIEW RPA STABILIZATION FUND

Mr. Sells reviewed the RPA Stabilization Fund report with the Committee. He stated that 180 member refund checks, totaling \$3.4 million dollars, were mailed in January 2009. He noted three members received invoices in the amount of \$56,923. The net balance of the RPA after the refunds is \$7.9 million.

Mr. Sells added that the success of a pooled program is that the excess revenues are refunded back to the members. The Workers' Compensation RPAs continue to be impacted by SB899. Because of this, the actuary projections were again reduced creating increased projected refunds for the next few years. It is projected the next RPA refunds should exceed \$4.5 million.

REVIEW INVESTMENT REPORTS

Chairman Boone started the review of the investments with a discussion of Local Agency Investment Fund (LAIF). Mr. Boone's concern is that LAIF is currently investing heavily in loans to the State of California in the form of state bonds. With the State of California in financial crisis, there is concern with LAIF's ability to fund a member's request for disbursements if the State delays payment to LAIF. The JPIA currently has about \$36 million in LAIF as of December 31, 2008 and Mr. Boone is concerned about the JPIA's liquidity. Ms. Sutton stated that there are several collateralized investment accounts with California Bank and Trust that would be available to the JPIA. The Committee discussed several types of secured government accounts available.

Mr. Klaff pointed out that the JPIA made money this last year, at a time when most entities did not, because of investment and management strategies. Nancy Jones from PFM Asset Management arrived and joined in the discussion of LAIF. Ms. Jones was asked about PFM's position on LAIF. She stated that they had stopped recommending clients investing in LAIF over a year ago since they could not determine what was in LAIF's portfolio. Discussion was made of the instability of the current market and the stability of the JPIA's funds. Mr. Sells pointed out in a "worst case scenario", if the JPIA was forced to delay withdrawal from LAIF, there is still enough net assets to cover all of the projected liabilities and obligations to date, and still have a little left over.

PRESENTATION ON SETTING BENCHMARKS, NANCY JONES, PFM ASSET MANAGEMENT LLC

The JPIA transitioned a portion of the investment portfolio to PFM effective November 1, 2008. PFM reports monthly, by e-mail, to Mr. Sells and Ms. Sutton. Ms. Jones reviewed the JPIA portfolio, economic highlights and current investment yields.

The volatility in the corporate market has calmed down since the end of 2008 and now offers more equitable sales prices for several of JPIA's corporate holdings including

those not managed by PFM. PFM may recommend to the JPIA to purchase Federal Agency and guaranteed FDIC-corporate notes.

Ms. Jones noted PFM's desire was to extend the duration of the JPIA's portfolio, preserve principle, and concentrate on safety. This approach would generate less returns, as well as reduce exposure to the volatility of the changing market.

There was a brief discussion on setting Benchmarks. The action to set Benchmarks will be put on the agenda for the next meeting of March 19, 2009. The Committee members asked to be put on PFM's monthly newsletter e-mail list.

ANNOUNCE FUTURE MEETING DATES AND TOPICS

Chairman Boone thanked the Committee members for their participation and time and noted the next meeting will be held Thursday, March 19, 2009, at 1:00 p.m.

ADJOURNED

Meeting was adjourned.