

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT  
FINANCE OVERSIGHT COMMITTEE**

**Metropolitan Domestic Water Improvement District  
\*\* Board Conference Room \*\*  
6265 N. La Cañada Drive  
Tucson, AZ 85704**

**November 16, 2017**

**MINUTES**

**Board Members Present:** Barbara Gelband, Member  
Robert Shonka, Member  
Lee Mayes, Member  
Richard Sarti, Member  
Charlie Maish, Member

**Board Members Not Present:** Reb Guillot, Chair  
Lee Harbers, Vice Chair

**District Staff:** Joseph Olsen, General Manager  
Sheila Bowen, District Engineer / Deputy General Manager  
Diane Bracken, Chief Financial Officer  
Steve Shepard, Utility Superintendent  
Theo Fedele, Clerk of the Board

**Regular Session**

**I. Call to Order and Roll Call**

Mr. Mayes called the Metropolitan Domestic Water Improvement District Finance Oversight Committee (Committee, FOC) meeting to order at 4:02 p.m. Ms. Gelband, Mr. Shonka, Mr. Mayes, Mr. Sarti and Mr. Maish were present. Mr. Guillot and Mr. Harbers were not present.

**II. Call to the Public**

There were no comments by the public.

**III. Approval of Minutes – March 21, 2017 Meeting**

Ms. Gelband made a motion to approve the minutes as presented. Mr. Shonka seconded the motion. Motion passed unanimously.

#### **IV. Results of Revenue Stability Initiatives**

Mr. Olsen provided a presentation highlighting the results of the revenue stability initiatives. He explained fixed and variable costs as well as fixed and variable revenues. Revenue Stability is achieving the balance of the fixed cost recovery from fixed revenue. This appropriate balance allows for additional budgetary planning as well as certainty to long-range water resource and capital improvement programs. Without revenue stability, it is more difficult to have certainty on the revenue to be realized as well as to achieve some of these long term initiatives.

In Fiscal Year 2015, the fixed revenue captured 69% of the fixed cost recovery. The first step was to increase the water availability rate by \$5 and decrease the water consumption charges by \$4.20, for the average customer, which equated to an average increase of \$0.80. In Fiscal Year 2016, the District was at 83% fixed cost recovery. The second step in the process began in Fiscal Year 2017, which included decreasing the first tier of consumption to \$0, for the first 3000 gallons, and increasing the water availability rate. The average customer saw an increase of \$1.65 or 3.7% and this moved the District to 90% fixed cost recovery. In March, the Committee discussed and recommended to the Board a zero percent increase to customers' rates and fees. This was possible because of the revenue stability initiatives. The goal was for a 90% revenue stability initiative, which was essentially met in Fiscal Year 2018.

Mr. Maish asked how much the customer demand has decreased. Mr. Olsen stated that fiscal year to date the demand has increased by 6-7% at Metro Main and by 11% at Metro Hub and Ms. Bracken stated that the percentages average out between the different service areas.

Mr. Mayes asked how the customers reacted to the rate increase. Mr. Olsen stated that after explaining the increase and showing the comparison to other water providers in the region the customers who provided feedback supported the adjustments because they understood it was the appropriate course of action.

Mr. Olsen stated he has had the opportunity to share this process with others at various conferences and workshops. These initiatives have become a benchmark to other utilities wishing to achieve revenue stability.

#### **V. Chief Financial Officer's Update on the District's Fiscal Year 2017 Independent Audit**

Ms. Bracken stated that when most people hear the word "Audit" they instantly feel stress and tension, however, truly understanding what an independent financial audit is all about helps to change this reaction. An independent financial audit is the authentication of the District's accounting books and records by an Independent Certified Public Accountant (CPA) as required by the District's Bond resolutions. Since the Auditors are not employees, a completely objective opinion can be formed and expressed. An auditor's task is to express an opinion as to whether or

not the financial statements fairly present, in all material respects, the financial position of the District in conformity with generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB). Some misconceptions are that the purpose of an audit is to “clean up” the organization’s books or that the auditors are looking to find fraudulent activity or expose inappropriate accounting transactions. Auditors have a responsibility to adhere to auditing standards and uphold the integrity of the accounting profession. Stating in an audit report that a set of financial statements is accurate and complete without having truly performed adequate test work can expose an auditor to serious fines, penalties, and loss of their license.

The District financial audit is conducted in two phases. First, the inventory and internal controls are tested. The results of these tests determine the amount of additional testing work needed to verify the financial balances are accurate when the Auditors return to complete their fieldwork in August. This is considered “risk based auditing.” In essence, having a strong set of internal controls reduces the risk that fraudulent or inaccurate transactions may occur, thus the auditor can place some reliance on these controls and reduce the amount of financial testing that must be conducted during fieldwork. The second phase of the audit process occurs during the fieldwork and involves testing the financial balances presented. Auditors review supporting documentation, perform analytical procedures, and confirm specific balances to gain assurance that the amounts being reported are appropriate. If discrepancies are identified, the auditors will discuss these with the Chief Financial Officer and potentially propose adjusting journal entries to correct any variances.

The District prepares for the audit by maintaining adequate documentation and approvals for all accounting transactions that occur during the fiscal year. This includes strong internal controls that provide checks and balances in the financial processes. Upon receipt of the auditor’s request lists, the District Accounting Team gathers the required documents, generates reports, prepares reconciliations and journal entries, and electronically uploads the information into SurLink, which is a secured file sharing software. This makes the shared information available to the Auditor immediately. As part of this audit preparation, all general ledger accounts are reviewed, and adjusting journal entries identified and posted before the arrival of the auditors. This saves the auditors time on test work and allows them to receive a clean set of books to start working with, which helps to reduce the number of tests conducted, and associated costs.

The audit team from HintonBurdik completed the District Independent Audit for Fiscal Year 2017, and no material internal control issues were found and no operating inefficiencies were identified. The net position of the District increased by \$8.57 million dollars compared to \$6.88 million in the prior fiscal year for an ending net position of \$70,825,537. The increase in net position consists of \$21.88 million of operating revenue, less operating expense of \$13.39 million, plus non-operating income of \$1.12 million, less non-operating expenses of \$1.38, and the addition of \$340,000 in contributed capital. Metered water revenue increased by \$1.34 million dollars when compared to the prior fiscal year and the total operating revenue increase by \$2.47 million dollars.

One of the benefits of our audit team is in addition to the audit they will also make business operational suggestions. This year during the exit interview, the auditors complemented the timeliness of deposits and suggested being aware of who can make changes, additions, and deletions when implementing electronic processes such as purchase order and service orders. There was an account number typo on the GASB 68 template that was provided and this was corrected. A prior year accrual for \$1,600 dollars interest on the Riverside Well note was not reversed as the note was paid off in July. An asset costing \$4,900 that was purchased in 2014 was set-up with a zero in the life span field so it was not calculating depreciation. This is one asset out of 1,011 total District assets. The total value of these corrected items compared to the total revenue for the fiscal year equates to a 99.99% transactional accurate rate.

Upon completing the audit, the Audit Manager from HintonBurdick stated, “We appreciate the time and care you take with the work you do and believe it shows in how clean the audit is and the fact there are no findings or significant adjustments. Please let everyone know we are grateful for the work they do and their assistance with the audit.” Mr. Bracken stated that she agrees with the Audit team that financial team has done a great job and their hard work and attention to details throughout the entire fiscal year is appreciated. Mr. Olsen stated that for the audit team to not find any material findings is a testament to the professionalism of Ms. Bracken and her team.

#### **VI. Presentation and Update on District’s Vehicle Fleet**

Kevin Westbrooks, Assistant Utility Superintendent, provided a presentation on the District’s vehicle fleet.

Mr. Maish asked how the contract agreement is renewed each year. Mr. Westbrook stated he believes the contact is automatically renewed annually unless cancelled. Ms. Bracken stated that the program was intended to continue and therefore did not have an end date.

Mr. Maish asked if there has been a cost comparison of Enterprise to other companies. Ms. Bracken stated the comparison is of the amount to purchase versus the amount to lease and Enterprise offers a lot of incentives that lowers the price. Mr. Olsen stated that the financial benefits allows for budgetary stability and enables staff to focus on meeting customers’ water service needs without having to worry about the maintenance associated with the fleet vehicle.

#### **VII. Look Ahead to Fiscal Year 2019**

Mr. Olsen stated that the January mid-year budget review determines the budgetary projections as well as the District’s needs. In March, there will be an in-depth discussion on rates and revenue where Ms. Bracken has done some initial models for the 2019 budget. The next step will include an adjustment to water resource utilization fee (WRUF) to help put the District’s water resources to beneficial use as well as go toward funding Northwest Recharge, Recovery, and Delivery Systems (NWRRDS). Miscellaneous fees are also being reviewed to determine if they are

recovering the true cost of service. Larger meter sizes are being reviewed based on how much water goes through the meters and the tier structure is being analyzed based on historical consumption to see if there are any recommended adjustments.

Mr. Maish asked if the priority Capital Projects that are anticipated for the next fiscal year will be accomplished. Ms. Bowen stated that the Oracle Jaynes well site improvements is in the final stages of completion, the Valencia Road waterline relocation which is an Regional Transportation Authority (RTA) project is about to start the construction phase, the La Cholla Blvd which is an RTA project is about to start the design phase, as well as couple other projects.

Mr. Maish asked about the status of the 1,4-Dioxane at Horizon Hills. Mr. Olsen stated that 1,4-Dioxane was discovered at Horizon Hills and the well was immediately turned off. The plan was to move forward with blending but was unable to achieve a reasonable blend. 1,4-Dioxane is not a regulated constituent but does have a health advisory level. Carolo Engineering, a water quality consultant, has been contracted to see if there are any other options.

**VIII. Clerk of the Board Updates; Future Meetings**

The next Finance Oversight Committee meeting will be scheduled in January.

**IX. Call to the Public**

There were no comments from the public.

**X. Adjournment**

The meeting adjourned at 4:59 p.m.

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Lee Harbers, Chair  
Finance Oversight Committee