

MINUTES OF THE FRCD/EDC/EGWS BOARD MEETING

Wednesday, June 25, 2008

The regular meeting of the Board of Directors of the Florin Resource Conservation District/Economic Development Corporation/Elk Grove Water Service was called to order at 6:37 P.M. by Chair Russell at 8820 Elk Grove Blvd., Elk Grove, CA.

Call to Order; Roll Call; and Pledge of Allegiance.

Directors Present: Barrie Lightfoot, Tony Perez and Sandi Russell
Directors Absent: Tom Nelson and Harry Riebe
Staff Present: Ann Siprelle, General Counsel; Rick Robinson, General Counsel Associate; Tom Bartlett, Treasurer; and Stefani Phillips, Secretary
Consultants Present: Richard Wilson
Public Present Include: Chuck Dawson, Associate Director; Dave Engel, member of the public; Roy Herburger, Elk Grove Citizen; Aurora Herburger, member of the public; Joe Richardson, Richardson & Company; and Brian Nash, Richardson & Company.

Public Comment

No comments

FLORIN RESOURCE CONSERVATION DISTRICT (FRCD)

1. Presentation FY' 06-07 Annual Audit

Joe Richardson, Richardson & Company, presented communications as required by Generally Accepted Auditing Standards. Mr. Richardson stated it is the auditor's responsibility to complete the audit and issue an opinion. He stated they have done so and have issued a clean opinion.

Brian Nash, Richardson & Company, followed a prepared agenda of audit proceedings. Mr. Nash stated there were several major issues discussed with management prior to retention: Alleged fraud; potential default of building debt; missing records; and claim against fiscal agent.

Mr. Nash noted some difficulties that were encountered in performing the FY' 06-07 audit: inadequate internal controls existed during the period tested, resulting in a significant increase in the scope of the audit; the accounting records were not adequate to summarize information needed to prepare the financial statements or were not updated on a timely basis; potential default of building debt (Susan B. Gaines Mitchell Building) owned by the FRCD and rented by the County of Sacramento Department of Human Assistance. The building revenues do not appear to be sufficient enough to cover the debt. **(This has no bearing on EGWS).**

Mr. Nash pointed out that with the turnover at EGWS a loss of institutional knowledge. He stated there was a delay in the completion of an annual audit while current management researched accounting issues. Mr. Nash stated the audit was not a routine audit, although, by the end they were satisfied that there was an understanding of what was in the financial statements and were able to give a clean opinion.

Mr. Nash noted that some material weaknesses (controlled efficiencies that could result in a material error) were discovered for the FY' 06-07; however, some of the transactions were followed through 2007-2008 and no material weaknesses were found, which means that the internal controls had significantly improved.

Mr. Nash noted that management has already addressed the issues with the Board.

Mr. Lightfoot stated he would like each of the items needing correction to be part of the Board agenda each month until all items have been taken care of. He stated he would like to know how it was corrected with a line of responsibility.

Mr. Nash stated Richardson & Company is required to follow up on the issues that were addressed and they reoccur it would be identified in the management letter the next year.

Mr. Lightfoot inquired when the FY' 07-08 would take place. Tom Bartlett, Finance Manager, responded stating he and Richardson & Company will be coordinating their schedules shortly to determine a mutual time when that audit can begin.

Mr. Richardson stated there were a lot of issues to deal with and everything that they were aware of has been disclosed and handled properly. He stated their responsibility is to report to the Board of Directors anything that is found.

Tony Perez, Vice-Chair, initiated a discussion regarding the potential default of building debt in regard to the lease agreement with the County of Sacramento Department of Human Assistance.

Mr. Richardson stated based on their understanding from the audit, the lease agreement does not appear to be an economically viable agreement. The rent is not sufficient. Ann Siprelle, General Counsel, stated there is no other source of money that can be used. The water revenues cannot be used. She stated, inevitably there will be a default **(This has no bearing on EGWS)**.

Ms. Russell requested that a copy of the lease agreement be provided to all members of the Board for review.

Mr. Perez inquired if the rate study had occurred during the FY' 06-07 and if it had been reflected in the audit. Mr. Nash replied that it showed up in the financial statements under debt coverage ratio. He stated the rate increase appears to have been sufficient because the debt coverage ratio was met for FY' 06-07.

Ms. Russell stated that the auditors did a super job.

Ms. Russell stated she would like staff to elaborate on the plan of action for each issue that was addressed. Mr. Bartlett responded, no problem.

2. Consent Calendar

- a. Cash Flow Worksheet – FRCD
- b. FRCD FY' 08-09 Budget
- c. CARCD Membership fees explanation

The Cash Flow Worksheet was not present.

The Board requested that the Cash Flow Worksheet be provided for approval at the July Board meeting.

Mr. Bartlett presented the revised FRCD FY' 08-09 Budget to the Board.

Mr. Lightfoot inquired where the income of \$36,000 comes from. Mr. Bartlett replied it is grant money and rent from the property at 8999 Elk Grove-Florin Rd.

Mr. Bartlett presented the CARCD Membership fees explanation from the Board meeting in May. He stated the fees are for Ellen Carlson's annual certification and licensing.

MSC (Lightfoot/Perez) to approve the FRCD Consent Calendar absent the Cash Flow Worksheet by a unanimous vote.

3. Consider Appointment of David Engel as an Associate Director

Ms. Russell recommended the appointment of David Engel as an Associate Director.

¹Motion, Second, Carried.

Ms. Russell stated she believed he would be a good addition to the FRCD.

MSC (Lightfoot/Perez) to appoint David Engel as an Associate Director by a unanimous vote.

Everyone congratulated Mr. Engel on his appointment.

ELK GROVE WATER SERVICE (EGWS)

1. Presentations/Announcements

FYI

Stefani Phillips, Secretary presented the revision to the minutes of the April Board meeting.

2. Consent Calendar

- a. Regular meeting minutes for May, 2008
- b. Warrants paid – May, 2008
- c. Miscellaneous Revenues- May, 2008
- d. Revenues vs. Expense Graphs FY 07-08
- e. Revenues vs. Expenses – Actual to Budget

Ms. Russell requested the minutes be revised to reflect a noted name change.

Mr. Lightfoot requested that questions presented by the Board be reflected in the minutes in red.

Mr. Perez stated he is concerned about the amount that the District is paying SMUD and feels that the District needs to have an audit performed. Mr. Bartlett replied the MOC and the two treatment facilities are the largest portion of the cost.

Mr. Perez inquired why there are two entries of payments to the auditor. Mr. Bartlett stated the district has made progression payments through May. He stated the auditors put in approximately 1000 hours on the audit. Mr. Bartlett stated they did a stellar job and one of the best he has ever seen. **Mr. Perez inquired how much the last audit was.** Mr. Bartlett replied \$40,000. **Ms. Russell inquired how much the current audit was.** Mr. Bartlett replied approximately \$87,000. Mr. Bartlett stated they did a great job and he was able to negotiate the fee down by approximately \$10,000.

MSC (Lightfoot/Perez) to approve the Consent Calendar with revisions to the minutes by a unanimous vote.

3. Directors Comments/Suggestions & Subjects for Future Board Meetings

Mr. Perez stated he did not see any of the intern pictures in the EG Citizen. Rick Wilson, Sentium, stated he and Roy Herburger are coordinating that.

Mr. Lightfoot requested staff to check with SMUD on what it would cost the district to convert the Railroad Treatment Plant to solar and how long it would take to recoup the cost of conversion. Mr. Lightfoot requested staff to bring the information to the July meeting. Mr. Bartlett stated he would look into it.

4. Closed Session

- a. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Subdivision (a) of Section 54956.9
Name of case: Florin Resource Conservation District v. Union Bank of California, Sacramento
County Case No. 34-2008-0002509

No reportable action taken.

¹Motion, Second, Carried.

b. CONFERENCE WITH LEGAL COUNSEL—EXISTING LITIGATION

(Subdivision (a) of Section 54956.9)

Name of case: Florin Resource Conservation District v. JBK Finance, LLC, et al, Yolo County Superior Court Case No. CV08-974

No reportable action taken.

c. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION

Subdivision (a) of Section 54956.9

Name of case: In re Methyl Tertiary Butyl Ether ("MTBE") Products Liability Litigation, Master File No. 1:00-1898, MDL 1358 (SAS), M21-88 (S.D.N.Y.)

The Board unanimously motioned to approve the proposed Settlement Agreement with Lyondell Chemical Company, one of the defendants in the multi-district MTBE litigation.

The meeting was adjourned to Wednesday, July 23, 2008.

Respectfully submitted,

Stefani Phillips

Stefani Phillips, Secretary