

NEVADA IRRIGATION DISTRICT  
BOARD OF DIRECTORS / JOINT POWERS AUTHORITY

MINUTES

October 8, 2014

The Board of Directors of the Nevada Irrigation District and the Nevada Irrigation District Joint Powers Authority convened in regular session at the District's main office located at 1036 W. Main Street, Grass Valley, on the 8th day of October 2014 at 9:00 a.m.

Present were John H. Drew, President (Division II); W. Scott Miller, Vice-President (Division III); Nancy Weber (Division I) and Jim Bachman (Division IV) Directors.

Director Nick Wilcox (Division V) was absent.

Staff members present included Remleh Scherzinger, General Manager; Tim Crough, Assistant General Manager; Jim Malberg, Finance Manager/Treasurer; Chip Close, Operations Manager; Gary King, Engineering Manager; Peggy Davidson, Recreation Manager; Brian Powell, Maintenance Manager; Keane Sommers, Hydroelectric Manager; Karen Gillespie, Human Resources Manager; Jeff Meith, District Counsel; and Lisa Francis Tassone, Board Secretary.

PUBLIC COMMENT – Martin

Elisabeth “Izzy” Martin, Chief Executive Officer of the Sierra Fund, provided invitations to the Board of Directors for the Opening Ceremony of the Nisenan Tribute Site. The Nisenan Tribute Site, including the Angkula Seo Bridge, is the newest addition to the Nevada City’s Deer Creek Tribute Trail System. The event is scheduled for Tuesday, October 28, 2014 at 11:00 a.m.

EMPLOYEE RELATIONS – New Employee Introduction, Hynie

Brian Powell, Maintenance Manager, introduced Joshua Hynie, Utility Worker. Mr. Hynie was born in Orangevale and raised in Loomis. He attended Sierra College and obtained his Art degree from University of California at Davis. He studied abroad for a semester in Oxford where he met his wife, and they now reside in Auburn. He has spent the last five fire seasons working as part of the Forest Service’s Hot Shot Crew, and was recently released from battling the King Fire.

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The Board and Staff welcomed Mr. Hynie to the District.

MINUTES – September 24, 2014 Regular Meeting

**Director Weber made a motion to approve the Minutes of the Board of Directors’ regular meeting of September 24, 2014, as submitted. Director Bachman seconded the motion.**

**Motion passed on the following roll call vote:**

<b>Weber, Division I</b>	<b>Aye</b>
<b>Drew, Division II</b>	<b>Aye</b>
<b>Miller, Division III</b>	<b>Aye</b>
<b>Bachman, Division IV</b>	<b>Aye</b>
<b>Wilcox, Division V</b>	<b>Absent</b>

WARRANTS

**Director Weber made a motion to approve the following warrants: Yuba-Bear Revolving Fund Nos. 26768 through 26805, inclusive; General Fund Revolving Account Nos. 66154 through 66297, Nos. 66132 and 65962 being void; Recreation Fund Nos. 4579 through 4594, inclusive; and Payroll Direct Deposit and Warrant Nos. 70926 through 70937 and V2427 through V2598, inclusive. Director Bachman seconded the motion.**

**Motion passed on the following roll call vote:**

<b>Weber, Division I</b>	<b>Aye</b>
<b>Drew, Division II</b>	<b>Aye</b>
<b>Miller, Division III</b>	<b>Aye</b>
<b>Bachman, Division IV</b>	<b>Aye</b>
<b>Wilcox, Division V</b>	<b>Absent</b>

2014/2015 QUAGGA AND ZEBRA MUSSEL INFESTATION PREVENTION GRANT PROGRAM (Res. No. 2014-46)

**Director Weber made a motion to adopt Resolution No. 2014-46 (Authorizing the Submittal of a Grant Request to the Department of Parks and Recreation, Division of Boating and Waterways for Prevention of the Quagga and Zebra Mussel). Director Bachman seconded the motion.**

**Motion passed on the following roll call vote:**

<b>Weber, Division I</b>	<b>Aye</b>
<b>Drew, Division II</b>	<b>Aye</b>
<b>Miller, Division III</b>	<b>Aye</b>
<b>Bachman, Division IV</b>	<b>Aye</b>
<b>Wilcox, Division V</b>	<b>Absent</b>

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AWARD OF CONTRACT M2014-06 – Godwin Siphon Rehabilitation Project

Rem Scherzinger, General Manager, requested that this matter be pulled from the agenda due to a contract inconsistency.

The Board concurred.

AWARD OF CONTRACT M2014-03 – Cascade Shores Phase IIIA Trench Paving Project

Brian Powell, Maintenance Manager, is requesting that the Board award a contract to Simpson & Simpson, Inc. in the amount of \$189,000 for paving work in the Cascade Shores area. District crews have installed 9,000 feet of new 8-inch line in the area, and have connected 110 services. Bids were sent to four companies, and the District received two bids: one from Simpson & Simpson, Inc. and one from Baldoni Construction. Simpson & Simpson, Inc. was the lowest bidder.

Director Weber asked what the status is of the Cascade Shores Pipeline Replacement Project.

Mr. Powell explained that this Project is the third of five phases; there are two years remaining until completion. Approximately 7,000 feet of pipe will be installed next year, and the same amount the following year.

Gary King, Engineering Manager, pointed out that the Fire Safe Council has been very complimentary of the District because new fire hydrants have been installed in the Cascade Shores area.

**Director Weber made a motion to award Contract No. M2014-03 to Simpson & Simpson, Inc. in the amount of \$189,000 for the Cascade Shores Phase IIIA Trench Paving Project, and authorized the General Manager to execute the necessary documents. Director Miller seconded the motion.**

**Motion passed on the following roll call vote:**

<b>Weber, Division I</b>	<b>Aye</b>
<b>Drew, Division II</b>	<b>Aye</b>
<b>Miller, Division III</b>	<b>Aye</b>
<b>Bachman, Division IV</b>	<b>Aye</b>
<b>Wilcox, Division V</b>	<b>Absent</b>

AUDIT – 2013

Jim Malberg, Finance Manager/Treasurer, presented highlights of the 2013 draft Audited Financial Statements:

- The District had net assets of approximately \$395 million (an increase of \$20 million over year 2012)

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- Unrestricted net position (equity) was \$62 million (an increase of \$10 million over year 2012)
- Water sales increased by \$1.3 million over year 2012
- Hydroelectric revenues increased by \$8.8 million over year 2012
- Hydroelectric net income of \$8.5 million
- Recreation revenue was \$1.7 million (an increase of \$300,000 from year 2012)
- Property taxes and assessments decreased by approximately \$500,000
- Investment income decreased by approximately \$50,000

The following is a summary of the District's 2013 and 2012 revenues, expenses and changes in assets:

	<b>2013</b>	<b>2012</b>
Operating Revenues:		
Water sales	\$ 19,226,399	\$ 17,857,842
Electrical power sales	21,560,091	12,798,978
Recreation fees	1,773,812	1,471,825
Other revenue	863,188	785,724
Total operating revenue	<u>43,423,490</u>	<u>32,914,369</u>
Operating Expenses		
Water	27,436,078	29,266,957
Electric	6,628,710	7,195,875
Total operating expenses	<u>34,064,788</u>	<u>36,462,832</u>
NET (LOSS) INCOME FROM OPERATIONS	<u>9,358,702</u>	<u>(3,548,463)</u>
NONOPERATING REVENUES (EXPENSES)		
Taxes and assessments	9,750,780	10,302,102
Investment income	433,678	486,989
Intergovernmental revenue	863,830	288,402
Other	85,599	107,341
Interest expense	(1,463,127)	(1,551,584)
Total nonoperating revenues (expenses)	<u>9,670,760</u>	<u>9,633,250</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>19,029,462</u>	<u>6,084,787</u>
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Facility capacity charges	714,427	363,568
Other capital contributions	369,150	8,004,707
Total capital contributions	<u>1,083,577</u>	<u>8,368,275</u>
CHANGES IN NET POSITION	<u>20,113,039</u>	<u>14,453,061</u>
Net position, beginning of year as previously stated	375,023,132	360,570,071
Restatement	170,744	
Net position, beginning of year, as restated	<u>375,193,876</u>	<u>360,570,071</u>
NET POSITION, END OF YEAR	<u>\$395,306,915</u>	<u>\$375,023,132</u>

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The following is a summary of the District's 2013 and 2012 assets, liabilities and net assets:

	<u>2013</u>	<u>Restated 2012</u>
<b>ASSETS</b>		
Current and other assets	\$ 79,278,580	\$ 74,999,819
Capital assets (net of accumulated depreciation)	362,181,360	352,701,221
Deferred Outflows	918,106	949,836
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b><u>\$ 442,378,046</u></b>	<b><u>\$ 428,650,876</u></b>
<b>LIABILITIES</b>		
Current liabilities	\$ 8,420,044	\$ 12,672,756
Noncurrent liabilities	38,651,087	40,784,244
<b>TOTAL LIABILITIES</b>	<b><u>\$ 47,071,131</u></b>	<b><u>\$ 53,457,000</u></b>
<b>NET POSITION</b>		
Invested in capital assets, net of related debts	\$ 322,987,110	\$ 309,004,602
Restricted by statute	7,925,108	9,152,360
Restricted for debt service	2,838,443	1,616,486
Restricted for improvement districts	1,369,700	3,142,019
Unrestricted	60,186,554	52,278,409
<b>TOTAL NET POSITION</b>	<b><u>\$ 395,306,915</u></b>	<b><u>\$ 375,193,876</u></b>

The following is a summary of the District's 2013 and 2012 net capital assets:

	<u>2013</u>	<u>2012</u>
Nondepreciable capital assets	<u>\$ 119,464,422</u>	<u>\$ 153,021,662</u>
Depreciable capital assets	383,204,817	329,615,243
Less: accumulated depreciation	<u>(140,487,879)</u>	<u>(129,935,684)</u>
<b>NET DEPRECIABLE CAPITAL ASSETS</b>	<u>242,716,938</u>	<u>199,679,559</u>
<b>NET CAPITAL ASSETS</b>	<b><u>\$ 362,181,360</u></b>	<b><u>\$ 352,701,221</u></b>

Ingrid Scheipline, Audit Partner, Richardson & Company, LLP, provided the following presentation:

*Reports Issued:*

- Audited Financial Statements with Auditor's Opinion
- Internal Control and Compliance Report
- Required Communications Letter
- Management Letter

*Independent Auditor's Report – Page 1:*

- Unmodified (clean) opinion, after adjustments

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*Discussion of Financial Statements:*

- Positive unrestricted net position of \$60 million – Page 16
- Net income of \$20.1 million (\$8.9 million – Water Division; \$11.2 million – Hydroelectric Division) – Page 18
- Designations according to Reserve Policy of \$38.6 million – Page 35
- Restatement of 2012 amounts – Page 41

*Report on Internal Control and Compliance – Page 44:*

- Material Weaknesses:
  - Year-end closing procedures need to be improved
  - Reporting of financial information to the Board (budget to actual comparisons and quarterly report of investments)
  - Preparation of budget to actual comparisons from accounting system
  - Physical inventory procedures and reporting
  - Recreation Division cash handling weaknesses
  - Capital asset reconciliations delayed
- Significant Deficiencies:
  - Calculations for compliance with debt covenants need revision
  - Accounts payable detail listing to be created from accounting system
  - Anti-fraud and Whistleblower policy needed
  - Strategic Plan needs to be updated
- District complied with applicable laws and regulations

Ms. Scheipline explained that the District has provided responses to the findings that indicate how the District will proceed with these findings in the future.

Director Miller asked Ms. Scheipline what grade she would give the District for this audit.

Ms. Scheipline stated that she does not grade audits; however, if she had to put a grade on the District's audit, it would be a 'C' because of the number of adjustments that had to be made and the timeframe that these adjustments were made.

Director Miller asked if Richardson & Company, LLP, has been engaged for auditing services for a block of time.

Ms. Scheipline stated that the District has engaged her firm for a period of five years. The goal is to see improvements made by the District by the end of the five year period.

Bob Simons, Audit Partner, Richardson & Company, LLP, provided the following presentation:

*Required Communications Letter:*

- Difficulties encountered:
  - Not all account analyses completed prior to audit
  - Large number of adjustments

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- Audit adjustments
  - 83 adjustments identified – list attached to letter (typically 10 adjustments are necessary)
  - 6 unadjusted differences determined to be immaterial – list attached to letter

*Management Letter:*

- Recommendations:
  - Accounting policies and procedures to be developed
  - Construction in progress tracking
- New accounting pronouncement requiring the accrual of unfunded pension liability (GASB 68)

Starting in 2015, CalPERS will provide the District with an estimate of the unfunded pension liability, and the District will be required to record this liability on the balance sheet. Currently, that liability is estimated to be \$23.3 million. This is approximately one third of the District's net position.

Mr. Malberg stated that the pension liability has never been included in the District's balance sheet, and will now be required to be included. He pointed out that this is not a new liability.

Ms. Scheipline expressed her thanks to Mr. Malberg and his Staff for working so hard on the Audit.

Rem Scherzinger, General Manager, also thanked Ms. Scheipline and Mr. Simons for the efforts they made on the District's audit.

President Drew referenced page 34 with regard to wastewater system revenues. The District is not involved with wastewater and this part of the sentence should be removed.

Mr. Malberg concluded by stating that there were a number of findings in the District's Audit. The District has addressed a number of these findings in 2014. Staff is providing budget to actual reports with the quarterly investment reports made to the Board. The two outstanding items that need to be addressed are:

- Recreation Division cash handling
- Capital Assets

Director Weber referenced page 40 and stated that Banna – Taylor Reservoir Replacement needs to be corrected to read Banner – Taylor Reservoir Replacement.

Director Weber requested a report at a future Board of Directors' meeting on the status of the recommendations provided in the 2013 Audit.

Mr. Malberg suggested that Staff provide this information with the quarterly report provided to the Board.

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Mr. Scherzinger stated that reports will be provided to the Administrative Practices Committee each month, and to the Board of Directors on a quarterly basis.

Director Weber asked about the status of the District's Strategic Plan.

Mr. Scherzinger stated that there is a budget for the Strategic Plan. He has been working with the Engineering Manager to generate a capital plan that can be carried forward as part of the District's Strategic Plan. The goals from last year also need to be reviewed. A meeting needs to be scheduled to review the capital plan and goals.

Director Weber asked when this meeting can be scheduled.

Mr. Scherzinger stated that he anticipates that the meeting can be scheduled after the first of the year.

President Drew stated that he appreciates the scrutiny the Auditors have provided, because the scrutiny provides clarity. He thanked the Auditors and Staff for their efforts.

**Director Weber made a motion to accept the District's 2013 Audited Financial Statements, and authorized the Finance Manager/Treasurer to publish the Financial Statements. President Drew seconded the motion.**

**Motion passed on the following roll call vote:**

<b>Weber, Division I</b>	<b>Aye</b>
<b>Drew, Division II</b>	<b>Aye</b>
<b>Miller, Division III</b>	<b>Aye</b>
<b>Bachman, Division IV</b>	<b>Aye</b>
<b>Wilcox, Division V</b>	<b>Absent</b>

NEWTOWN CANAL – Meeting with Property Owners

Rem Scherzinger, General Manager, reported that he met with the property owners that reside in the area near the District's Newtown Rehabilitation Project. They are aware of the options, and are working together as a group to resolve their desires. He stated that the District will make whole those property owners that are currently receiving water, and water will be available for the other property owners.

MEETING WITH DISTRICT CUSTOMERS – Mora and Miller

Rem Scherzinger, General Manager, reported that he met with Lily Marie-Mora and Linda Miller to address the concerns they brought up at the Board meeting of September 24, 2014. They recommended that as many customers as possible be involved when the District evaluates the next water rate increase.



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### SETTLEMENT – Osterholm

Rem Scherzinger, General Manager, reported that the matter has been addressed and resolved. A Settlement Agreement has been executed with Lesa Osterholm, as authorized by the Board of Directors. Ms. Osterholm has met with Staff in the Operations Department to transfer information and has submitted her resignation.

### LABOR / MANAGEMENT MEETING

Rem Scherzinger, General Manager, reported that the first Labor / Management Committee was held on October 6. A number of issues were discussed, and this meeting was a positive start to establishing a communication line between labor and management.

### STATE WATER RESOURCES CONTROL BOARD (SWRCB) – Update on Water Curtailments

Rem Scherzinger, General Manager, reported that the SWRCB issued the Drought Curtailment letter with regard to when the curtailment orders will be lifted. The SWRCB does not anticipate lifting the order at this time. They have indicated that they will allow the District to capture rain events, but they will be operating the permit system in real time. The SWRCB staff will determine whether or not rain can be captured or whether there will be potential capture at which point they will release the curtailment for that event. The curtailment would then be back in place post event.

Mr. Scherzinger stated that the District's Operations and Hydroelectric Departments are in the process of realigning the system so that the District can capture and prepare for any weather event.

Director Weber requested that the District utilize the media in a timely manner regarding information to the public on the water curtailment issue. The community is asking what is happening, and the District needs to respond to these inquiries.

Mr. Scherzinger stated that all of the information received by the SWRCB is placed on the District's web site.

Director Weber stated that the media needs to be utilized.

President Drew stated that he feels that the curtailment notices reach into the area of origin laws and the public trust doctrine. He thinks that the State has overstepped its bounds even though on paper they might be authorized to issue the curtailment notices. He believes the SWRCB has "stepped on the peoples' rights."

### WATER STORAGE AND SUPPLY – Update

Rem Scherzinger, General Manager, reported that there is currently 145,655 acre feet of water in storage which is 92 percent of average.

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PACIFIC GAS & ELECTRIC COMPANY (PG&E) – Oil Drums in Lake Spaulding

Rem Scherzinger, General Manager, reported that during a repair project at Spaulding Powerhouse No. 3, PG&E was in the process of delivering 11 five gallon drums of oil by helicopter and accidentally dropped those drums into the Lake due to high winds. PG&E responded immediately and stopped moving water from the facility and took other appropriate measures. This event necessitated that the District shut down the Bowman Powerhouse and begin drawing down on District storage.

EAST HACIENDA / LAKE OF THE PINES INTERCONNECTOR PROJECT – Update

Rem Scherzinger, General Manager, reported that pipe is being installed on Pioneer Way. Connections on E. Hacienda are being installed at this time. Fire hydrants have also been installed.

LOMA RICA / E. GEORGE INTERTIE PUMP STATION PROJECT – Update

Rem Scherzinger, General Manager, reported that the Loma Rica / E. George Intertie Pump Station Project completed its start-up phase. The pump station performed admirably, and the generator was able to operate with all three pumps.

FINANCE MANAGER/TREASURER - Resignation

Rem Scherzinger, General Manager, reported that Jim Malberg has submitted his resignation and his last day will be October 10, 2014.

HUMAN RESOURCES MANAGER – Appointment

Rem Scherzinger, General Manager, reported that he has appointed Karen Gillespie as Human Resources Manager. Ms. Gillespie has been serving as the District's Interim Human Resources Manager.

The Board applauded Ms. Gillespie's appointment.

MOUNTAIN COUNTIES WATER RESOURCES ASSOCIATION (MCWRA) – Meeting

Director Weber announced that the next MCWRA meeting is on October 15 in Folsom. Many topics will be discussed in a workshop format, including groundwater management, dam safety, water banking, hydro power, etc.

SIERRA NEVADA CONSERVANCY – Meeting

Director Weber announced that the Sierra Nevada Conservancy will be holding their monthly meeting in this area on December 3 and 4, 2014. She stated that 10 years ago the Conservancy started meeting on a monthly basis and, to date, they have met in 22 counties.

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LAKE VERA ROUND MOUNTAIN NEIGHBORHOOD ASSOCIATION – Meeting

Director Weber spoke to the Lake Vera Round Mountain Neighborhood Association about water availability and waterline extensions through the District. She resided in that neighborhood for 23 years. The District installed a waterline on Lake Vera Road in 1995 and utilized funding from the State Department of Health Services. Sixteen parcels were using ditch water in their homes. The Cement Hill Water Supply Project and other waterline extension projects completed by the District is fantastic progress. Ten years ago, the cost to obtain water was prohibitive. Today, the costs are much more reasonable.

Director Weber noted that there are wells on Round Mountain Ranch that are running dry. The District needs to evaluate this area for water service.

BACKBONE EXTENSION PROGRAM – Community Meeting

Director Miller reported that a Community Meeting was held at the District on September 29 to discuss the District's Backbone Extension Program (BEP). He thanked Staff for their time.

In his business, he sees a number of people, and they are happy to have water. He complimented Shannon Matteoni, Business Services Technician, on doing an amazing job. She has answers, is accessible and provides good direction. He extended his compliment to other members of the Staff associated with the BEP.

CLOSED SESSION was declared at 10:15 a.m. pursuant to Government Code Section 54956.8 to confer with Real Property Negotiators Scherzinger, Malberg, Sommers, Sindt and/or Meith regarding price and terms of payment for acquisition and sale of rights in real property; properties subject to negotiations:

- South Yuba Canal, Chalk Bluff Canal, Deer Creek Powerhouse; flowage/wheeling rights in Drum Canal, Bear River Canal, Wise Canal, and South Canal (all owned by PG&E)
- Flowage Rights in Bowman-Spaulding Canal, Fall Creek Flume, Dutch Flat Flume, and Chicago Park Flume; right to storage in Rollins Reservoir (all owned by NID)

Persons with whom negotiations will be conducted: PG&E Management.

MEETING RECONVENED in regular session at 11:05 a.m.

MEETING ADJOURNED at 11:05 a.m. to reconvene in regular session on October 22, 2014, at 9:00 a.m. at the District's main office located at 1036 W. Main Street, Grass Valley, California.

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*Ma Francis Tarsoni*  
Board Secretary

Attest a true record of actions  
had and taken at the above and  
foregoing meeting our presence  
thereat and our consent thereto.

<i>Nancy V. Weber</i>	Director Division I
<i>[Signature]</i>	Division II
<i>[Signature]</i>	Division III
<i>[Signature]</i>	Division IV
<i>Nick Wilson</i>	Division V