1. Call to Order - Mitch Hutchcraft, Chairman, Audit & Finance Committee

Mr. Hutchcraft called the meeting to order at 3:16 PM.

2. Approval of the Minutes from the April 11, 2013 meeting

The minutes for the April 11, 2013 Audit & Finance Committee meeting were unanimously approved.

RESULT: ADOPTED [UNANIMOUS]
MOVER: James J. Moran
SECONDER: Clarke Harlow
AYES: Hutchcraft, Barber, Accursio, Harlow, Moran

3. Summary of Investments - Lucie Weinberg, Treasurer, Administrative Services

- Investment Policy

Lucie Weinberg provided a presentation that summarized the District's investment policy and portfolio, and the role of Treasurer.

Ms. Weinberg reviewed the Treasury mission statement and stated the Inspector...
General's (IG) conclusions in the recent audit of the Treasury's investment management and internal controls were deemed to be sufficient. Ms. Weinberg emphasized that the main principles of investing were first safety and liquidity, and then yield.

Ms. Weinberg stated that pursuant to the IG's recommendation, the District hired The PFM Group. PFM will provide financial advisory services with its main focus to help create long and short term cash flow forecasts; review and update the current policy and allocation percentages; and, to consider the utilization of a more comparable index.

Ms. Weinberg discussed market risks and how they were mitigated; current interest rates; and, the purchase of bonds and mortgage backed securities. Additionally, Ms. Weinberg summarized the District's portfolio and stated the District had typically maintained a high cash balance due to frequent large land acquisitions; however, PFM would now be looking to bring down the cash balance and invest at higher yields and then make recommendations to the Committee.

Ms. Weinberg summarized the performances of the investments and the benchmark comparisons and stated the District currently had $34M invested with the State Board of Administration (SBA). Additionally, Ms. Weinberg discussed the Florida Local Government Investment Trust and the District's $50M original investment in this Trust.

Concluding the presentation, Ms. Weinberg discussed the District's debt to fund the Everglades Agricultural Area reservoir project and provided a history of the Certificate of Participations (COPs). The District recently engaged in a refunding project which saved the District $100M in present value savings over the next 20 years in debt service payments.

**Committee Comments**

Upon question from Mr. Accursio, Ms. Weinberg stated the total amount in the District's portfolio was $500M. To this, Mr. Antonacci stated the amount was misleading in that the District received a majority of its revenue in November and December as ad valorem taxes were received. Mr. Moran added that the amount included not only ad valorem but also committed reserves, and that while this seemed to be a large dollar amount, there was no discretionery money to speak of as funds had already been allocated in the new budget or committed to Restoration Strategies or other ongoing projects.

In response to a question from Mr. Moran, Ms. Weinberg stated that COPs were the District's only debt.

Mr. Hutchcraft stated the Committee's goal was to protect the District's assets while earning as much interest as possible.

Responding to a question from Mr. Accursio, Mr. Antonacci stated that no hurricane reserve funds had been used in response to Hurricane Matthew. To this, Mr.
Hutchcraft added that the reserve funds would roll-over yearly until needed.

4. **Introduction of Financial Advisor - Lucie Weinberg, Treasurer, Administrative Services**

- **Richard Pengelly, PFM Asset Management LLC**

  Ms. Weinberg introduced Richard Pengelly, Director, The PFM Group.

  Mr. Pengelly reviewed the challenges facing the District in protecting its assets and provided comparisons should the District choose to diversify its portfolio. Mr. Pengelly also provided an overview of PFM's internal process for an investment program review in order to create recommendations for diversification, and how the firm performs a comparison and analysis against other water management districts and large public entities.

**Committee Comments**

Upon question from Mr. Accursio as to if the investments were insured, Mr. Pengelly stated the District was required to deposit funds with a bank or savings association with status as a qualified public depository (QPD). The QPD as an entity secured the deposits with portfolio treasuries and agency type securities. For cash deposits, this mechanism served as an extension to the $250K provided by the Federal Deposit Insurance Corporation (FDIC). As for security investments, Mr. Pengelly stated the District assumed the risk of owning those securities.

In response to a question from Mr. Harlow regarding if a higher risk or market fluctuation could be foreseen within the next three year window, Mr. Pengelly stated the federal government had been very slow in the rate increase cycle, with possibly two rate increases projected in 2017; and, longer term investments were exposed to higher market risks.

Responding to Mr. Moran's question regarding European banks that introduced negative interest rates and if the USA would follow suit, Mr. Pengelly stated that economists did not expect to see that happen.

Mr. Hutchcraft encouraged the Committee to reach out to PFM and to staff should there be additional questions after reviewing the information provided. The Committee can expect to meet quarterly to discuss how to look forward on investments; how to balance short term and long term needs and investments; ensure that interest rates were maximized with the desired outcome and within the framework of the District's policy; and, to ensure that best management financing principles were being applied.

Additionally, Mr. Hutchcraft asked that staff provide a presentation at a future Committee meeting regarding the projection of the District's liquidity needs and cash flow demands, the possibility of diversifying investments - was there an amount of cash flow that could comfortably be moved into other investments; if yes, what investments would that be?
5. **Audit of Investment Management - Timothy Beirnes, Inspector General**

Mr. Beirnes presented the IG’s finding from the audit of Investment Management. The audit concluded the investments complied with the Investment Policy and Florida Statutes, financial records were properly stated, and that the system of internal controls were generally adequate but opportunities for improvement existed. Mr. Beirnes presented the IG’s recommendations to further strengthen the Investment Management internal controls.

**Committee Comments**

In response to a question from Mr. Accursio, Mr. Beirnes stated the District was allowed to encumber some funds for five years as long as a determined amount of cash remained and the stratification of the maturity of investments existed.

Mr. Hutchcraft asked that staff provide an update at a future Committee meeting with recommendations in response to the IG’s suggestions; specifically, recommendations related to cash flow, surplus of funds, investments and policy adjustments needed.

6. **Proposed Audit Plan for Fiscal Year 2017 - Timothy Beirnes, Inspector General**

Mr. Beirnes presented the IG’s FY 17 proposed audit plan which includes:

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<th>Audit Projects</th>
<th>Operations &amp; Maintenance Capital Program</th>
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<td>Land Surveying Contracts</td>
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<td>CERP Cost Share for Operations &amp; Maintenance (OMRR&amp;R) Costs</td>
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<td>Vegetation Management Program</td>
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<td>Kissimmee River Restoration Cost Share for Real Estate Expenditures</td>
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<td>Integrated Real Estate Information System (IRIS)</td>
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<td>Special Audit Requests - Governing Board &amp; Management</td>
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<th>Administrative Projects</th>
<th>Prepare Audit Plan for Fiscal Year 2017</th>
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<td>Prepare Inspector General Annual Report</td>
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**Committee Comments**

In response to a question from Mr. Moran, Mr. Beirnes stated the Operations & Maintenance Capital Program audit would include canals and also encroachments in Miami-Dade County.

Mr. Moran asked to have a separate conversation with Mr. Beirnes regarding the
valuation and replacement cost of the District's infrastructure and what funds were set aside to accomplish this.

Mr. Barber and Mr. Moran expressed great satisfaction with the IG's work products.

Responding to a question from Mr. Accursio, Mr. Antonacci stated the District was back to where it should be with oversight from the Committee. Further to this, Mr. Hutchcraft reiterated that it was appropriate for the Committee to provide policy guidance and oversight and to make recommendations that were beneficial. This would ensure transparency and that the Board is a good steward of public funds.

Approve Inspector General's Proposed Audit Plan for FY 2017

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7. Public Comment

There was no public comment.

8. Adjourn

Mr. Hutchcraft adjourned the meeting at 4:12 PM.

Mitch Hutchcraft, Chairman
Project & Lands Committee
South Florida Water Management District

Rosie Byrd
Deputy District Clerk
South Florida Water Management District