

JEA FINANCE & AUDIT COMMITTEE MINUTES
March 13, 2017

The Finance & Audit Committee of JEA met on Monday, March 13, 2017, in the 8th Floor Conference Room, JEA Plaza Tower, 21 W. Church Street, Jacksonville, Florida.

Agenda Item I – Opening Considerations

- A. Call to Order – Chair Kelly Flanagan called the meeting to order at 8:00 AM with Member Tom Petway in attendance. Member Husein Cumber attended telephonically. Member Ed Burr was absent and excused. Others in attendance were Paul McElroy, Melissa Dykes, Brian Roche, Paul Cosgrave, Mike Hightower, Ted Hobson, Jody Brooks, Steve Tuten, Joe Orfano, Walette Stanford, Janice Nelson, Ryan Wannemacher, Bill Kearson, Steve McInall, Dan Mishra, Laure Whitmer, and David Jolley. John DiSanto, Russ Jeans, and Heather Lohbeck, Ernst & Young, were also in attendance.

Due to a lack of quorum physically present, agenda items were received for information only. Action items will be brought before the March 21, 2017 full Board for action.

- B. Adoption of Agenda – Due to a lack of quorum, the agenda was received for information.
- C. Approval of Minutes – Due to a lack of quorum, the December 1, 2016 Minutes were received for information.

Agenda Item II – New Business

- A. FY2018 Budget Assumptions – Melissa Dykes, Chief Financial Officer, presented and reviewed the FY2018 Budget Assumptions and process, requesting Committee feedback and discussion. Items covered included key strategic issues, risks, major challenges, and assumptions. Ms. Dykes stated strategic issues focus on emphasizing business excellence opportunities, workforce readiness, financial performance and flexibility, with risks relating to future environmental constraints on electric generation, water resource management, and the health of the St. Johns River. Key assumptions relate to revenue projections, fuel and purchased power costs, and labor costs. Ryan Wannemacher, Director, Financial Planning & Analysis, provided information on FY2018 Electric and Water and Sewer System Budget Assumptions, including customer bill by expense category, revenue drivers, fuel rate, operating expenses, capital funding, and debt service, as well as government transfers. Mr. Wannemacher stated staff will prepare a draft budget for review at the May 8, 2017 Finance and Audit Committee. This presentation was received for information.
- B. JEA Annual Disclosure Policy Report – Melissa Dykes, Chief Financial Officer, presented JEA’s Disclosure Policies and Procedures require that the Chief Financial Officer shall provide the Finance and Audit Committee each year with a report regarding the compliance with those policies in the preceding twelve-month period and to present recommendations, if any, for changes to those policies. Ms. Dykes stated staff is in the process of preparing the Annual Disclosure Reports for the fiscal year ended September 30, 2016, and plans to seek the Board’s approval and authorization to disseminate those reports at its April 18, 2017 Board Meeting. Additionally, in accordance with past practice and prior Boards’ requests, staff intends to provide Board Members with substantially final drafts for their review at the March 21, 2017 Board Meeting. This item was received for information.
- C. Ernst & Young FY2016 Revised Management Letter – Janice Nelson, Controller, presented Ernst & Young, LLP (EY) attended the December 1, 2016 Finance and Audit Committee meeting to discuss FY2016 audited results. EY presented an Audit Results book, which summarized the

results of the audit and also contained communications required by auditing professional standards, including a Management Letter. John DiSanto, Executive Director, Ernst & Young, presented there were no Management Letter comments related to FY2016; however, there were two comments from the prior year that were in the process of being remediated at the end of the fiscal year that were inadvertently omitted from the report. Mr. DiSanto stated that EY staff has reviewed the newly developed reconciliation reports that were developed to remediate the outstanding Management Letter comments, and is in agreement that the reports meet the requirement to close the open items. They will complete the testing as part of the review of IT systems during the fiscal year 2017 audit. Mr. DiSanto introduced Russ Jeans, Senior Manager and Heather Lohbeck with EY and thanked them for their support. Melissa Dykes, Chief Financial Officer, thanked Technology Services staff for their support with the two open items. The revised Management Letter and management's response to the recommendations are included in the Committee package. This presentation was provided for information only.

D. Audit Services

1. Quarterly ERM/Audit Update – Steve Tuten, Director, Audit Services, provided an update to the Committee regarding the Senior Auditor open position, progress of the FY17 Internal Audit Plan, and open audit and investigation report issues, Enterprise Risk Management (ERM) highlights, risks and trend report, and the Ethics Hotline Report. This presentation was received for information.
2. Finance & Audit Committee Members – Self-Assessment Survey Questionnaire – Steve Tuten, Audit Services, presented the Committee conducts a self-assessment that is conducted on an annual basis. Self-assessments are considered a best practice for Audit Committees and also for full Boards. Mr. Tuten advised completed forms can be submitted by the end of April for compiling and summarization. Results will be reported at the May 8, 2017 Finance & Audit Committee meeting. This presentation was received for information.

E. Cyber Security Activities – Paul Cosgrave, Chief Information Officer, provided information to the Committee related to recent political hacking events within the past year, key steps Boards should take regarding cyber security, Enterprise Compliance & Risk Committee structure, Critical Infrastructure Protection (CIP) risks, potential information security threats for 2017, ransomware and how JEA protects against it, information security defensive trends, and JEA's role on the Large Public Power Council (LPPC) Cyber Security Taskforce. This presentation was provided for information.

F. CIP Compliance Update – Ted Hobson, Chief Compliance Officer, presented an overview of the systems JEA has in place to protect our critical infrastructures. Mr. Hobson provided information on the benefits and risks of the Grid interconnection, history of blackouts or cascading outages, standards, monitoring methods of the North American Electric Reliability Organization (NERC), timeline for the Critical Infrastructure Protection (CIP) standards. Mr. Hobson was pleased to announce that JEA has been the only utility in the Florida region to complete a CIP audit with no findings. The next CIP Audit will be conducted July 10-14, 2017; the NERC GridEx Conference will take place on November 15-17, 2017. This item was received for information.

G. Ethics Officer Quarterly Report –Walette Stanford, Ethics Officer and Director, Workforce Strategies, provided an update regarding ethics inquiries and the FY17 gift registry. Ms. Stanford stated the Nepotism project, which began in December 2016, was completed in February 2017. This review was to ensure compliance with JEA's Nepotism procedure. Ms. Stanford attended the Utilities & Energy Compliance & Ethics Conference February 19-22, 2017 in Washington, D.C. Ms. Stanford highlighted March as National Ethics Awareness Month and stated JEA is rolling out its new Business Ethics Computer-Based Training module to employees for 100%

completion no later than March 31, 2017. The focus this year will be on secondary employment attestation. This presentation was received for information.

H. JEA Energy Market Risk Management Policy Report – Steve McInall, Electric Production Resource Planning, reviewed the Energy Market Risk Management Policy Report, which was received for information.

I. Treasury

1. Resolution Determining the Sufficiency of Revenues – St. Johns River Power Park – Joe Orfano, Treasurer, presented that there is an annual requirement under the St. Johns River Power Park (SJRPP) Bond Resolutions for JEA to determine that for the upcoming fiscal year, the Electric System's revenues will be sufficient to make all required payments under the bond resolutions. JEA staff recommends that the Board approve and adopt Resolution No. 2017-27, determining that the estimated revenues for the fiscal year ending September 30, 2018, will be sufficient for their intended purposes. Due to a lack of quorum, this item was received for information and will be presented at the March 21, 2017 Board Meeting for action.
2. Recap of Recent JEA Electric System Advance Fixed Rate Debt Refunding Delegated Transactions – Joe Orfano, Treasurer, presented that at the November 15, 2016 JEA Board Meeting, Board Members adopted Resolution No. 2016-17 and 2016-18, relating to the Electric System Senior and Subordinated Revenue Bonds, respectively, which provided the Managing Director/CEO the authorization to price and execute a fixed rate advance refunding bond transaction within stated parameters. Pursuant to Resolution No. 2016-17 and 2016-18, JEA staff priced approximately \$18.7 million in senior and \$71.7 million in subordinated fixed rate bonds on January 31, 2017. Mr. Orfano provided results as compared to the delegated parameters for the Electric System Revenue Bonds, Series Three 2017A and Subordinated 2017 Series A on February 1, 2017. Mr. Orfano recognized J.P. Morgan, who served as the senior manager, and Nixon Peabody LLP, who served as JEA's bond counsel and Public Financial Management, who served as JEA's financial advisor for the refunding transaction. This presentation was received for information.
3. Electric System and Water and Sewer System Reserve Fund Quarterly Report – Joe Orfano, Treasurer, reviewed the Electric System and Water and Sewer System Reserve Fund Quarterly Report, which was received for information.

J. Announcements

1. The next Finance and Audit Committee meeting will be held on May 8, 2017, at 8:00 AM.

K. Committee Discussion Sessions

1. Ernst & Young – At 9:28 AM, Ms. Flanagan dismissed staff and the Committee held a general conversation with John DiSanto.
2. Director, Audit Services – At 9:33 AM, Ms. Flanagan and the Committee held a general conversation with Steve Tuten, Director, Audit Services.
3. Council Auditor's Office – The Council Auditor's Office was not in attendance.

Closing Considerations

With no further business claiming the attention of this Committee, the meeting was declared adjourned at 9:42 AM.

APPROVED BY:

Kelly Flanagan, Committee Chair
Date: _____

Submitted by:

Melissa Charleroy
Executive Assistant