

Corinne W. Wiley, President
Catharine Benediktsson, Vice President
V. William Brady, Secretary

Casey Kawamoto, Director
Claire McAuliffe, Director

**Sanitary District No. 5 of Marin County
Finance & Fiscal Oversight Committee Meeting
at Sanitary District No. 5 of Marin County Meeting Room
2001 Paradise Drive, Tiburon, California
Thursday, July 30, 2009 9:00 a.m.**

CALL TO ORDER at 9:07 a.m.

- I. ROLL CALL:**
- | | |
|----------------------|--|
| Directors present: | Catharine Benediktsson, Vice President
Claire McAuliffe |
| Staff present: | Robert L. Lynch, District Manager
Samantha Miller, Office/Finance Manager |
| Consultants present: | David Perotti, Perotti & Carrade CPAs |

II. PUBLIC COMMENTS: None

III. NEW BUSINESS:

a. Phase 2 Recommendations from Mr. David Perotti, CPA

Mr. David Perotti, CPA presented to the Committee his preliminary Phase 2 recommendations from his internal audit. Mr. Perotti presented the reports he created with his reporting software based on the District's QuickBooks file from April 2009. He explained his goal in creating these new financial statements was to provide the Board with the information he feels they need in order to accurately manage the ongoing operations of the District, as well as to address certain previously discussed issues about the availability of financial statements. Mr. Perotti recommends that the District purchase the Pro Systems reporting software that he used to design these templates, which he estimates will cost approximately \$800 to \$1,000. Mr. Perotti said more templates can be created using this reporting software, if desired. Once the templates are created, the QuickBooks data gets downloaded into the templates in order to create reports. Mr. Perotti estimated this new process of generating the financial reports would take approximately one to two hours more than the method the District currently uses in QuickBooks.

Mr. Perotti presented to the Committee his first financial statement, the Statement of Net Assets, which is similar to the Balance Sheet. The second report was the Statements of Revenue and Expenses, similar to the Statement of Activities; this report includes depreciation. Mr. Perotti explained that fixed assets must be depreciated according to Generally Accepted Accounting Principles (GAAP), and it is most correct to depreciate on a monthly basis, although almost all small districts do not do this. Mr. Perotti discussed with the Committee the fact that depreciation is not meaningful in managing day to day operations, but it is meaningful when it comes to GAAP and the financial community. Cash flow is the most meaningful in terms of managing day to day operations. In this second report, Mr. Perotti noted he broke out Operating Revenue and Expenses from General and Administrative Expenses. This report (along with the remaining reports) contains three subsets of reports: one for the entire District, and two separate reports for the Belvedere and Tiburon zones.

The third report Mr. Perotti presented to the Committee was the Statements of Cash Receipts and Disbursements. This report shows the beginning cash and ending cash balances at the bottom of the report, which matches with the cash balances on the Statement of Net Assets. This shows how the District's cash is moving month to month, as well as year-to-date. This report shows no depreciation; it shows capital improvements and payment of debt (principle).

The Committee agreed this is a fantastic summary for the Board level. District staff would continue to use more detailed versions of these reports for internal purposes, as is the current practice. The Board would continue to rely on District staff to inform them if something from the internal reports was out of the ordinary and needed to be brought to their attention.

Mr. Perotti presented his fourth report to the Committee, the Comparison of Year-to-Date Actual Results (Cash Basis) to Budget. This budget tool shows the dollar variance and the percentage variance from the budget, as does our current Combined Total Budget vs. Actual Report. The Committee discussed the idea of breaking the budget down on a monthly basis, and the difficulty of accurately estimating capital improvement expenditures on a monthly basis. The Committee asked Mgr. Lynch to prepare a report for the Board showing the District's *planned* CIP contract award schedule for the fiscal year. During his Manager's Report at the monthly Board meetings, Mgr. Lynch should report on how the District is doing with the schedule that month. Mgr. Lynch explained District staff does not currently have the time to implement a monthly budget; staff is stretched too thin with the current work load.

The fifth report Mr. Perotti presented was the Comparison of Year-to-Date Capital Improvement Expenditures to Budget. Again, four out of the five reports Mr. Perotti

presented were each three pages long, with separate reports for District Wide, Belvedere Zone, and Tiburon Zone.

Mgr. Miller and Mgr. Lynch agreed they think these new reports would be useful and meaningful, but they will require more work to produce and many more pages of reports. And, internally, District staff would need more detail. The Committee thanked Mr. Perotti for the fabulous reports.

The Committee discussed with Mr. Perotti the security of the District's electronic banking. The Committee would like Mgr. Lynch to invite the LAIF and Bank of America bankers to the next Finance Committee meeting to discuss the security of the District's electronic banking and risk management. V.P. Benediktsson proposed the idea of District staff checking the District's bank balances every day and recording them in a manual daily bank balance log.

The Committee asked Mr. Perotti if he has noticed anything in his internal audit of the District's finances that is a red flag to him. Mr. Perotti said he has not seen any red flags. The Committee asked what his opinion is of cash basis versus accrual basis accounting. The District has decided to no longer retain Mr. David Bennett, CPA to create a duplicate set of books that he converts from cash to accrual on a monthly basis. Instead, the District will continue to keep its books on a cash basis throughout the year, and Mgr. Miller will convert the books from cash basis to accrual basis at the end of each fiscal year, with the year-end closings. The District will no longer have the expense of paying an outside CPA for keeping a duplicate set of accrual books; this will be replaced by Mgr. Miller doing the required work in-house. Mr. Perotti agreed this new method is perfectly fine. This new method also satisfies the concern Mr. Terry Krieg, CPA raised in the Management's Discussion and Analysis section of his FY 2007-2008 Audit Report.

The Committee authorized Mr. Perotti to get the new Pro Systems reporting software for the District and directed Mr. Perotti and District staff to proceed with developing the new reporting methods. This will take some time to implement; District staff hopes to have the new financial reports available for either the September or October Regular Board Meeting.

Mr. Perotti noted the only remaining unresolved issue he has is the salary zone allocations. It turns out the new payroll system he advised the District to use does not have the capabilities to calculate salary zone allocations each month based on hours worked in each zone, like he wanted. He believes since salaries and benefits are such a large portion of the District's budget, it would be useful to allocate those expenses to the zones more accurately than by applying the normal zone allocation percentages.

The Committee asked Mr. Perotti if, when the State borrows money from the District, the District should record that money as an accounts receivable asset. Mr. Perotti replied that the borrowed money would have to be a certain quantifiable sum, and the District would have to have a commitment from the withholding agency to repay that sum certain in order for it to be recorded as accounts receivable for the District.

The Committee thanked Mr. Perotti for his wonderful work.

b. FY 2009-2010 Commercial Sewer Service Charges

The Committee reviewed and approved the draft commercial sewer service charges for FY 2009-2010. The Committee reiterated the Board's decision at the June 9, 2009 Regular Board Meeting to keep the existing ordinances (No. 2005-01 and 2007-01) as written, with clarification given to the denominator of the formula: "Annual Residential Flow;" the denominator will be based on the average residential flow figure provided by the Marin Municipal Water District, which is publicly available.

c. Legal Advice from District Legal Counsel Regarding Loans

The Committee reviewed the legal advice from Mr. Riley Hurd, District legal counsel, regarding interzonal loans. In short, the District would only be able to pay off the Belvedere loan with funds from the Tiburon zone if those funds are undesignated and unrestricted. However, according to Mr. Hurd, undesignated, unrestricted funds "technically should not exist at all within the District given the mandates of Resolution No. 2007-08," the District's updated financial reserve policy.

The Committee directed Mgr. Lynch to ask Mr. Hurd a follow up question: are there any state regulations that prevent one zone from paying off another zone's debt?

d. Draft FY 2007-08 Audit Report from Mr. Terry Krieg, CPA (attached)

The Committee reviewed and approved the Draft FY 2007-2008 Audit Report from Mr. Krieg. This FY 2007-08 Audit Report will be presented to the Board at the August 11, 2009 Regular Board Meeting, and Mr. Krieg will be present at that meeting to answer any questions the Board may have about the audit.

e. CSRMA Property Program Insurance Policy for FY 2009-2010 (attached)

The Committee decided to wait to discuss this item at the next Finance Committee meeting with the Advisory Group to discuss the District's reserve policies.

f. Warrants for July 2009 (attached)

The Committee reviewed and approved warrants for July 1 - 31, 2009, #3171 through 3210, in the amount of \$142,684.71. The Committee discussed warrant #3189 to East Bay Muni Utility District for \$3,005.00 for FY 09-10 BACWA Membership Contributions. Due to the District's tight budget for FY 09-10, the Committee directed District staff to look into whether the District still needs to maintain membership with BACWA (Bay Area Clean Water Agencies). The Committee asked District staff to look into the Nextel lease and whether it would be possible to raise the rates, and if we could find more cell site locations to lease to Nextel or other cell phone companies. The Committee also discussed the District's high insurance costs. Warrants #3209 and 3210 cover workers' comp, property insurance, and auto insurance policy renewals for FY 2009-2010. These three premiums total \$31,330.33 for FY 2009-2010, with workers' comp being the largest (\$21,483.00).

g. Financial Reports for July 2009 (attached)

The Committee reviewed and approved the Financial Reports for July 1 - 31, 2009.

IV. ADJOURNMENT at 11:12 a.m.

Recorded by Samantha Miller