



SAUSALITO-MARIN CITY SANITARY DISTRICT

Financial Policies Manual

**Adopted by Board Action
September 6, 2016**

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FINANCIAL – FINANCIAL POLICIES

Policy Framework

PURPOSE

Financial policies are key components to sound fiscal management and effective financial operations. The purpose of this Policy Framework is to provide guidance and direction for developing the financial policies.

The Sausalito-Marin City Sanitary District (SMCSD) Financial Policy Manual guides the Board of Directors, General Manager, and District staff in shaping financial decisions and actions. These policies give directions for making informed choices regarding important aspects of operating a special district, and on effectively handling and safeguarding its financial and physical assets. They define, promote, control, and ensure participation by each stakeholder on his/her roles, responsibilities, and relationships with respect to financial matters and administration. It is an accepted business practice, to have financial policies in place. They are useful training tools for new employees and reinforce the financial skills and operations of current staff.

POLICIES VS. PROCEDURES

The focus of the financial policies is to provide concise and comprehensive direction from the Board with respect to the proper actions to take in managing and conducting the District's financial affairs. Each policy is organized to provide succinct, explicit, and current direction to designated stakeholders. These policies are linked to and complement financial procedures. Procedures are detailed separately with specific directions and steps for implementing the policies. Generally, policies tend to be less specific than procedures. Policies should pass the test of time, while procedures, keeping with the intent of the policies, may change more frequently to adapt to changes in operational needs and technology. Financial procedures are maintained by the District's Administrative Team.

POLICY FRAMEWORK

District staff shall develop, and the Board shall approve, financial policies that promote accountability, stability, and continuity. The policy development process will also encourage active participation by specific stakeholders who have a vested interest in the District's financial planning, management, and operations.

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Financial policies shall be actionable and shall set controls to be used for prudent financial decision-making, and shall standardize financial operations by defining roles and responsibilities. They shall define and outline appropriate financial management and behavior. Any District employees may be subject to disciplinary actions under Personnel Policy for violation of any financial policies. In their intent, Financial Policies shall promote and incorporate long-term perspectives and strategic thinking by framing overall operational policies, goals, and objectives. They shall establish links to these broad organizational goals and objectives, while focusing on fiscal results and outcomes for the District.

District staff shall periodically bring the financial policies to the Board for review and consideration for making recommended changes.

FINANCIAL – INTERNAL CONTROLS

Internal Controls and Fraud Prevention

PURPOSE

The purpose of the Internal Controls and Fraud Prevention Policy is to provide direction on managing the District's internal accounting methods and practices and to prevent fraudulent activities and misuse of District funds in accordance with California Government Code Section 6500, et seq.

POLICY

Internal Controls

District staff shall establish and maintain procedures, documents and systems of internal controls to safeguard financial assets, to manage financial assets in an accountable, secure, efficient, and effective manner, and to ensure accurate financial data. The Office Manager shall be responsible for this function.

Internal Accounting Practices

District staff shall perform internal accounting practices in accordance with *Generally Accepted Accounting Principles (GAAP)* for government agencies, including all applicable *Financial Accounting Standards Board (FASB)* pronouncements, and all relevant *Governmental Accounting Standards Board (GASB)* pronouncements. District staff shall ensure that:

Each employee understands his/her role, responsibility, and accountability when conducting financial transactions for the District; All transactions are properly authorized; Accounting records and documentation are properly maintained; Access to both assets and records are effectively controlled; and General Ledger accounts are periodically reviewed for their reasonableness, and for the validity and accuracy of the underlying items they represent.

If any of these practices are found to be improperly implemented or maintained, District staff shall take immediate remedial action to improve and/or change the practice.

Internal Review and Recommendations

The Office Manager shall perform a periodic review of all financial policies, procedures, and practices, and make recommendations for changes and updates to the General Manager. As appropriate, the General Manager shall make policy change recommendations to the Board of Directors for its review and approval, and/or direct District staff to make appropriate procedural changes.

Public Fiduciary Liability

The General Manager shall recommend, for Board review and approval, methods for reducing and mitigating risks associated with potential public fiduciary liabilities such as claims made against the District for any alleged wrongful fiduciary act and/or breach of fiduciary duties for which the District might be responsible. The General Manager shall consult with the California Sanitation Risk Management Authority and other authoritative resources to make recommendations regarding the procurement of public official bonds, fiduciary liability insurance, and establishing other mechanisms for reducing and mitigating such risks.

Audits

Internal control and financial audits shall be performed annually by an independent firm of certified public accountants and coordinated by the Office Manager in accordance with *Generally Accepted Auditing Standards*, *Generally Accepted Governmental Auditing Standards* and applicable State laws. The District staff shall implement the auditor's recommendations for improved internal controls. The Board shall annually review and approve the audits and accept the Annual Audit. In addition, based on the recommendation of the General Manager from an evaluative process, the Board shall periodically review and approve the selection of the independent auditor to perform the annual financial audit.

Segregation of Duties

In implementing this policy and related procedures, District staff shall segregate financial transaction roles, responsibilities, and duties to the extent possible to safeguard assets against the risk of loss, mishandling, misuse, and fraud.

Operating Bank Account

The Board shall approve the selection of a federally insured banking institution that would be entrusted to securely handle and transact, at District staff direction, any funds deposited in the District's Operating Fund Account. The General Manager shall periodically recommend to the Board the selection, through an evaluative process, of a new banking institution due to changes in the current banking institution's performance, banking market conditions, or for other benefits or advantages to the District. The evaluation shall include, but is not limited to, qualifications associated with banking services provided, fees charged, and financial and administrative benefits for the District. The Office Manager shall develop procedures to manage the daily and routine operations of the Account and its cash balances.

Authorized Check Signers

District staff shall require that all checks disbursed from the District's operating account have two signatures and be for valid, documented, and approved expenses of the District. At no time or occasion shall blank checks be signed. The Board shall designate authorized check signers who may include the General Manager, Board members, and District staff. The General Manager shall seek Board authorization to update authorized check signers whenever a previously designated check signer is no longer affiliated with the District.

Wire Transfers

The District utilizes an operating account and several investment accounts to properly manage its funds. The General Manager, Office Manager, and District staff appointed by the General Manager shall be authorized to transfer funds between these accounts.

District staff shall accept wire transfer payments to its operating account for services rendered only after review and approval by the Office Manager.

Fireproof Secure Storage

District staff shall store vital District financial and administrative records, all cash, blank check stock, processed and voided checks, and spare door keys and access cards in a fire-resistant locked cabinet located in the office area of the Administration building. The General Manager shall designate which Administration staff shall be given possession of the key to the cabinets.

Payments to District and Bank Deposits

District staff shall deposit in the Operating Fund bank all payments to the District on a weekly basis based on appropriate financial procedures. Deposit of cash receipts shall be performed by designated staff and verified by the Office Manager. Prior to the time in which the receipts are processed for bank deposit, District staff shall store checks and cash in the District fireproof lockable cabinets for the shortest time possible.

Petty Cash

District staff shall securely maintain petty cash funds for small cash transaction purposes. Disbursements from petty cash shall be pursuant to the Purchasing Policy, and associated procedures. An auditable form would be used for all disbursements. At no time or occasion shall checks be cashed out of petty cash currency, or petty cash funds borrowed for any purpose. District staff shall keep petty cash in a locked box in the District office.

FINANCIAL – INTERNAL CONTROLS

Ethics

PURPOSE

The District's Mission Statement promotes achievement of the District's purpose and vision by protecting its assets and investments through sound financial policies and practices. The Board of Directors, General Manager, and District staff shall serve as stewards of the public's resources, trust, and confidence, and thus shall be held to the high standards of ethical fiscal conduct in the

public's interest as opposed to personal interests. The purpose of the Ethics Policy is to affirm required standards of conduct and practices with respect to financial roles and responsibilities.

POLICY

I. General

The Board shall establish and maintain financial policies for standards of ethical responsibility. Directors and District staff should understand that improper financial and contractual activities could damage the reputation of, and confidence in, the District and its employees, and could result in serious adverse financial and legal consequences for the District. Each Board member and District staff shall conduct him/herself, in his/her official business dealings, in practice and appearance according to ethical fiscal standards, regulatory requirements, and the upholding of the public's trust. District administrative staff shall develop and implement methods and controls for preventing, avoiding, and reducing potential ethical fiscal improprieties, conflicts, and fraudulent behavior, and to ensure procedures and structures are in place to properly implement this Policy. The General Manager, as necessary, will periodically schedule appropriate ethics training for Directors and designated District staff as required by the California Government Code.

II. Violation of this Policy and Related Financial Policies

The General Manager or designee shall investigate any allegation and/or observation of improprieties that would violate this Policy and other financial policies. If a violation is determined to have occurred, the General Manager shall handle the matter under the District's Personnel Policies, which may result in disciplinary action.

III. Reporting Unethical and Fraudulent Behavior

District staff shall report any observation in practice or appearance of a violation of the District's financial policies, procedures, and resolutions including this Policy to their supervisor or the General Manager, who will investigate the matter. A verbal or written report will be considered a personnel matter and will be handled with strict confidentiality under the District's Personnel Policies.

IV. Whistleblower Provision

District staff who report unethical or fraudulent behavior are protected by the provisions in the California Government Code Sections 8547-8547.12, Article 3, known as the “California Whistleblower Protection Act.”

V. Use of Public Funds

District staff shall make expenditures of District funds only after the transaction has been properly reviewed, approved and authorized as established by *Internal Controls, Expenditure Management, Financial Planning, Procurement Management, and Asset Management* policies and related procedures. District staff shall only receive funds for authorized and approved District activities as established by *Internal Controls, Revenue Management, and Financial Planning* policies, and related procedures. District staff shall not spend or receive public funds for any “public purposes” they choose; all funds of the District shall be utilized solely for Board adopted purposes (California Government Code section 8314). District staff shall be prohibited from the practice and appearance of potentially fraudulent activities that could involve, and are not limited to, the following activities: borrowing District funds, accounting or recordkeeping that results in borrowing schemes, contract or bid rigging, pilfering or petty theft, unapproved reimbursement of funds, unauthorized disposal or taking possession of surplus or unused District property and supplies, double accounting or making double payments, false claims, payroll and benefit fraud, and false programming or hacking of electronic and automated financial systems and transactions. Each Board member shall comply with District Board of Directors’ Policy, *Reimbursement Policy for Travel/Expenses for District Officials*.

VI. Conflict of Interest

Government Code section 87300 requires every state and local government District to adopt a Conflict of Interest Code to prohibit and prevent financial conflicts of interest. In addition to this Ethics Policy, the Board has also adopted a Resolution and a Personnel Policy that address conflicts of interest. Directors and District staff shall not make, participate in making, or in any way attempt to use their official positions to influence a District decision in which they know or have reason to know that they have a financial interest (California Government Code section 87100, et seq.). In addition, Directors and

District staff shall not be financially interested in contracts they enter on behalf of the District. Directors and District staff shall avoid contractual improprieties that could occur both in practice and appearance (California Government Code section 1090, et seq.).

Directors and District staff shall not engage in any employment or enterprise for compensation that is inconsistent, incompatible, or in conflict with their official duties and responsibilities associated with the District (California Government Code section 1126). Each Director and designated District staff, as stated in the District's Conflict of Interest Code, shall file Form 700: Statement of Economic Interests with the Marin County Office of Elections. The General Manager shall make the statements available for public inspection and reproduction (California Government Code section 81008).

VII. Bribery and Extortion

Federal and California law both prohibit bribery and extortion of or involving public officials and employees. Directors and District staff shall not ask, receive, or agree to receive a bribe, and shall not demand or extort money in return for the performance of their official duties. A bribe involves asking for, giving, receiving, and accepting anything of value for gaining present or prospective advantage, performance, and/or influence in any affairs of the District (California Penal Code sections 7(6) and 68).

VIII. Extra Compensation

Directors and District staff shall explicitly uphold the California Constitution, Article XI, section 10 that prohibits “*extra compensation*”: “...A local government body may not grant extra compensation or extra allowance to a public officer, public employee, or contractor after service has been rendered or a contract has been entered into and performed in whole or in part, or pay a claim under an agreement made without authority of law.”

Certificate Bonus: Treatment Plant Operators who obtain their Grade III, IV, or V Certification shall receive a one-time payment of Seven Hundred Fifty Dollars (\$750.00). Certification in Wastewater Treatment Plant Operation is obtained from the California State Water Resources Control Board.

Upon budget approval by the District Board and prior approval by the General Manager, an employee shall be reimbursed his/her tuition charges upon satisfactory completion of a training course which is considered beneficial to the District. Tuition costs will be

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withheld from the final wages of an employee leaving for any reason within one (1) year of completion of course. Participation in and successful completion of special training courses may be considered in making advancements and promotions. Evidence of such activity shall be filed with the General Manager.

Training: Authorization may be granted for employees to attend professional conferences and meetings, or to participate in some form of activity or training in the interest of the District. Upon budget authorization, such leave may be granted by the General Manager for one day, or by the District Board for more than one day.

Reimbursement of expenses incurred shall be made in accordance with established financial procedures of the District, within limits prescribed by the District Board.

The District shall pay all fees related to all certificates and licenses required in connection with District employment, including Class B California State Drivers Licenses and UST Operator. Class C Drivers Licenses shall be excluded. The District shall compensate employees designated to be Class B drivers at a rate established by the District and in accordance with administrative regulations promulgated by the General Manager.

Certification Incentive Program: Based on classification, some bargaining Unit employees are eligible to participate in this program. This program is designed to provide compensation for employees who obtain and maintain varied and higher levels of technical certification above their job requirements. A maximum of 10% may be approved for over-certification status under this program for selected classifications.

Employee Service Awards

An employee's service to the District shall be celebrated through a presentation of a recognition award following 10, 15, 20, 25, and 30 years of service commitment to the District. Awards shall be as established by the General Manager and shall be in an amount not to exceed twenty dollars (\$20) per year of service. In addition, a District sponsored employee luncheon shall be held in the employee's honor

Service Excellence Awards

The service excellence award program recognizes District employees for outstanding performance and achievement during times of unusually challenging and demanding work situations. Such service goes beyond the basic performance requirements of an employee's position. Employees may be eligible for a lump sum performance bonus award, of up to five (5) percent of their annual base pay. Eligible superior performance categories include:

1. Exceptional Productivity: Sustained superior performance or a specific action that resulted in significant cost savings or increased efficiency.
2. Distinguished Contribution: Sustained superior performance of an exceptional or unique nature that strengthens and/or brings credit to the District.

3. Extraordinary Contribution: An exceptional act associated with a non-routine or unique situation.
4. Exceptional Customer Service: Sustained superior performance or specific action that gives special attention to members of the public or other District employees.
5. Team Player: Superior ability to work with employees and assist in an extraordinary manner.
6. Specific Project Accomplishment: Exceptional completion of a special project assigned in addition to normal job responsibilities.

Any employee can make a nomination of an individual or an employee group by submitting a description of the candidate extraordinary achievement and/or contribution. The General Manager shall screen all submissions to verify nominee eligibility and accuracy and shall prepare a report and recommendation to the Board of Directors Personnel Committee. The Personnel Committee shall review the report and recommendation and determine an award amount between 0% and 5% of the employee's salary. The Personnel Committee will make a recommendation to the Board of Directors who will consider the award.

IX. Gifts to Employees and Officials

Directors and District staff shall explicitly follow the California Political Reform Act (Government Code sections 86203, 89503, and 89506) and relevant U.S. Internal Revenue Service codes and pronouncements that set forth the rules and provisions that must be followed by public employees and officials related to the receipt of gifts and applicable taxes. These state laws limit the value of gifts that may be accepted by the Board and District employees. These government codes cover a broad subject area regarding gifts including, but not limited to, the maximum amount of gifts that public employees and officials may receive (amounts are set by the California Fair Political Practices Commission), lobbyist limitations, special rules for gifts of travel, exceptions to the gift limitations, and other regulations regarding gifts. See website www.fppc.ca.gov for more information.

X. Honoraria Ban

Directors and District staff shall explicitly follow California Government Code 89502, which prohibits public officials from accepting honoraria. Honoraria is defined as any payment made in consideration for any speech given, article published, or attendance at any public or private conference, convention, meeting, social event, meal, or like gathering.

XI. Gifts of Public Funds

Directors and District staff shall explicitly uphold California Constitution, Article XVI, section 6 that prohibits public agencies from making gifts of public funds: “*... shall have no power... to make any gift or authorize the making of any gift of any public money or thing of value to any individual, municipal or other corporation whatever the purpose...*”

XII. Receiving Donations

The Board shall receive donated funds and/or property of value from private individuals, corporations, and organizations on behalf of the District when such funds or property are directly related to the mission, public purpose, and operations of the District. The Board shall not receive such donations in exchange for compensation, services, and/or any item of value that would benefit the donator in fact, practice, or appearance, other than those derived from tax-exempt donations prescribed in federal and state tax laws. The General Manager shall review, approve, and accept items of deminimus value on behalf of the District. The Board shall review and consider accepting all other donations.

FINANCIAL – FINANCIAL REPORTING

General

PURPOSE

The purpose of the Financial Reporting Policy is to provide District staff direction on external financial reporting requirements.

POLICY

I. Annual Audited Financial Reports

District staff shall work with the auditor to prepare an annual audited financial report. The Board of Directors shall review and accept the Annual Audited Financial Report no later than December 31st of the fiscal year end for which the report is prepared. The Audited Financial Report shall be prepared in accordance with *Generally Accepted Accounting Principles (GAAP)* for government agencies and relevant Government Accounting Standards Board (GASB) statements. The auditor will audit the financial statement of the governmental activities, each major fund, and the aggregate remaining fund information of the District the related notes to the financial statements, which collectively comprise the District's basic financial statements. The auditor will also prepare the District's Annual Financial Transactions report as required by the State Controller's Office.

II. External Filings and Reporting

In addition to the Annual Audited Financial Report, District staff shall comply with other required external filings and reports as listed in the table below.

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III. Report Category/Report Frequency

Financial Reporting:	
Annual audited financial statements	Annual
State Controller's Special Districts Financial Transactions Report	Annual
Payroll Reporting:	
Federal and State Tax Withholding Deposits	Bi-weekly
Forms 941 (Federal) / DE 6 (State)	Quarterly
Forms W2 (Federal) / W3 (Federal) / DE 7 (State)	Annual
State Controller's Government Compensation of California Report	Annual

Other Reporting:	
Diesel fuel taxes (State)	Annual
Forms 1099 (Federal) / 1096 (Federal)	Annual

FINANCIAL – REVENUE MANAGEMENT

General

PURPOSE

The purpose of the Revenue Management Policy is to provide staff direction on the management of District's revenues with respect to its organizational budgets, goals, and objectives.

BACKGROUND

The City of Sausalito, the National Park Services and Tamalpais Community Services District collect wastewater within their service areas to be transported by force main to SMCSD for treatment and disposal. SMCSD also provides wastewater collection, transport and treatment to Marin City. SMCSD provides operations and maintenance of the systems' force main and pump stations to include those owned by the City of Sausalito through a service agreement. All customers except for TCSD and NPS pay SMCSD through the tax rolls using a sewer service rate determined by the Proposition 218 process.

TCSD's sewer service rate is determined by and paid quarterly through a wastewater sewer services agreement. The National Park Service receive wastewater services for the Ft Baker and Ft Cronkite areas through a wastewater services agreement providing wastewater services in exchange for the use of the property (5 acres) where the treatment plant is located.

Except for Marin City, the manner in which each City or entity determines charges to the property owners and businesses for wastewater collection within its respective jurisdiction is solely the purview of the entity.

The District's ability to receive revenues for non-regional charges is derived from the District's Sewer Use and Fee Ordinances and by contractual arrangements.

REVENUE SOURCES

SMCSD's service charge is established by the Board of Directors based on the District's total funding requirements. These requirements take into account the District's necessary operational and capital expenses, other revenue sources, the use and level of reserve cash, debt service requirements, and financial forecasts, among other considerations, when determining and approving the service charges.

I. Service Charges

The Majority of the District revenues are from Proposition 218 generated sewer service rates and Supplemental Collection System Charges for unincorporated area collected by the County of Marin, contract revenues for SMCSD wastewater services provided to TCSD and pump station O&M services provided to the City of Sausalito. In accordance with Proposition 218, the Board can base these charges on the number of equivalent dwelling units (EDUs), measured flow volume, or measured flow volume and wastewater quality (strength).

EDUs are calculated for each property in its service area. An EDU is an estimation of an average wastewater flow discharged from one single-family household. Non-Residential Customers' EDU is based on flow and strength. The rate applied to the total EDU count for each service area, the revenue as determined for each service agreement, determine the total service revenue for SMCSD.

Collection System flows into the District's force main are continuously measured by flow meters and recorded by the SMCSD process control system, and can be totalized for any period of time. Flow measurements from existing flow meters on influent force mains are used to quantify each areas collection system influent volumes. Flows are continuously measured for the City of Sausalito, Marin City, NPS and TCSD.

II. All Other Revenues

Other District revenues consist of capacity charges, contract service revenues, investment and interest income, environmental compliance permit and inspection fees to SMCSD, and miscellaneous charges for other services.

III. Permit and Inspection Fees

The Board shall set by ordinance, specific fees that District staff will collect for services related to environmental, public health, and regulatory responsibilities under the District's jurisdiction (see District Code Title 2, Chapter 2.45 Permits and Fees). When setting a fee, the timeframe in which the fee is valid shall be set and the fee will be calculated to recover the full cost of the services as described below under "Fees for Service."

IV. Fees for Service

Fees charged to outside agencies for District provided services under contract shall be based on mutually agreed-to terms, under which the District recovers the full cost of providing such services. The principles of cost accounting shall apply for recovery of direct materials, direct labor, and administrative overhead. Labor charges shall be recovered using the weighted labor rate that includes the cost of salaries and benefits and other considerations. Contract revenues shall be billed quarterly. Receivables for environmental compliance, on-site disposal, and similar items shall be recorded as they occur.

V. Accounts Receivable

According to *Generally Accepted Accounting Principles* (GAAP), District staff shall record a receivable for sewer service charges, capacity charges, permit and inspection fees, and other fees for service when the revenue is due to the District. The Office Manager will conduct a monthly reconciliation of accounts receivable and identify outstanding payments due to SMCSD.

Accounts receivable shall be accrued to the proper accounting period based upon the date the services were performed.

FINANCIAL – REVENUE MANAGEMENT

District Service Contracts

PURPOSE

The purpose of the District Service Contracts Policy is to provide District staff with direction for responding to a request from a public entity for SMCSD services.

POLICY

The General Manager will receive all written requests from public entities for contracting SMCSD services and will ask the appropriate Department Manager to conduct a feasibility review for the provision of the requested services. The General Manager will then determine if the District has the existing resources, staff expertise, and capacity to provide the services being requested. The District will recover the full costs for all services provided including staff compensation and benefits, and District overhead. If a mutually beneficial contract is feasible, a draft proposal will be brought to the Board of Directors for review, discussion, and consideration of authorization to negotiate an agreement with the public entity requesting SMCSD's services.

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The General Manager will present the negotiated agreement to the SMCSD Board for consideration of approval. Once approved by the Board, the agreement will be executed by SMCSD after the governing board or designated official of the entity requesting SMCSD services has also approved and executed the agreement.

FINANCIAL – TREASURY

General

PURPOSE

The purpose of this Treasury Policy is to provide direction for managing the District's treasury and investments, and to ensure fiduciary responsibility and prudent review, planning, and approval of treasury transactions.

- I. Controller/Treasurer Functions - The General Manager shall act as the District's Treasurer and Controller to manage, secure, control, account, audit, report, and develop effective procedures for controlling and handling financial assets and investments to the benefit of the District in accordance with the District's Financial Policies and Procedures and Government Code 6505.5, et seq.
- II. Monthly Financial Report - District staff shall prepare monthly Financial Report containing summary information for each operating account in use by the District. The report shall contain Balance Sheet, Statement of Revenue and Expenditures Report, Current Year Job Costs versus Current Budget, and Job Costs. Staff shall also prepare a detailed Monthly Transaction List by Vendor Report that lists and describes all operating account cash disbursements during the reporting month. The Board shall review and accept the Monthly Financial Report and Monthly Transaction List by Vendor Report.
- III. Schedule of Investments - District staff shall prepare a quarterly Schedule of Investments report containing a summary of the District's investment accounts activity including each individual investment: description of investment instrument, apportionment interest rate, current balance, fair value, interest earned, and the source of the valuation. The Board shall review and approve the Schedule of Investments.
- IV. Bank Reconciliation - District staff shall perform a monthly reconciliation of the District's operating bank account and investment accounts. The District staff who prepares the accounts payable shall not perform the bank reconciliation.

FINANCIAL – TREASURY

Investments

PURPOSE

The purpose of the Investment Policy is to provide guidelines for prudent investment of the District's cash. This Policy covers all funds and investment activities under the direction of District in accordance with California Government Code Sections 53600, et seq.

STATEMENT OF INVESTMENT POLICY

OBJECTIVES

The District shall design and manage investments with a high degree of professionalism worthy of the public trust. The primary objectives, in order of priority of the District's investment activities, shall be:

I. Safety

Safety of principal is the foremost objective. Investments of District shall be made in a manner that seeks to ensure preservation of capital.

II. Liquidity

The investment portfolio shall remain sufficiently liquid to enable District to meet cash flow requirements which might be reasonably anticipated.

III. Yield

Investment return becomes a consideration only after the basic measurements of safety and liquidity have been met.

PRUDENCE

The District shall follow Section 53600.3 of the California Government Code that identifies as trustees those entities, i.e. California Asset Management Program (CAMP) and Local District Investment Fund (LAIF), authorized to make investment decisions on behalf of a local District. As a trustee, the standard of prudence shall be the prudent investor standard. Investments shall be

made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of District, that a prudent person acting in a like capacity and familiarity with those matters, would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of District.

DELEGATION OF AUTHORITY

The Board of Directors shall delegate authority to invest District's funds to the General Manager, who shall then assume full responsibility for those transactions until the delegation of authority is revoked or expires. Subject to review, the Board may renew the delegation of authority each year. No person may engage in an investment transaction except as provided under the limits of this Policy.

The General Manager may delegate day-to-day investment decision-making and execution authority to an investment advisor. The advisor shall follow this Policy and other written instructions as are provided.

The General Manager and the delegated staff acting in accordance with Policy and associated procedures and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

INTERNAL CONTROLS

The General Manager shall establish a system of controls to regulate the activities of internal staff and any external investment advisors, and shall be responsible for all transactions undertaken by these persons. No person may engage in an investment transaction except as provided under the terms of this Policy, other Treasury and Internal Controls policies, and the associated procedures established by the General Manager.

ETHICS AND CONFLICTS OF INTEREST

All participants in the investment process shall seek to act responsibly as custodians of the public trust according to this Policy. Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment recommendations and decisions.

AUTHORIZED INVESTMENTS

The District shall be governed by California Government Code Sections 53600, et seq. Within the investments permitted by the Government Code, the District seeks to further restrict eligible investments to those listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters shall take precedence.

I. United States Treasury Issues

United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category.

II. Federal District Obligations

Federal District or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that may be invested in this category; however, not more than 30 percent of the portfolio shall be placed in any one District. Furthermore, purchases of callable Federal District obligations are limited to a maximum of 20 percent of the portfolio. In addition, purchases of Federal District mortgage-backed securities issued by or fully guaranteed as to principal and interest by government agencies are limited to a maximum of 20 percent of the portfolio

III. Medium-Term Notes

Medium-term notes, defined as all corporate and depository institution securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States. Eligible investment shall be rated AAA by one or more nationally recognized rating service. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in medium-term notes with any one issuer in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.

IV. Municipal Securities

Bonds, notes, warrants, or other evidences of indebtedness issued by the State of California or any California local District. Securities eligible for purchase shall be rated AAA, as rated by one or more nationally recognized statistical-rating organization. A maximum of 30 percent of the District's portfolio may be invested in this category.

The District's portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase.

V. Negotiable Certificates of Deposit

Negotiable certificates of deposit (NCD) issued by a nationally or state chartered bank, a savings association or a federal association, a state or federal credit union, or a state-licensed branch of a foreign bank. No investments shall be made in a bank or credit union if a member of the Board, or any person with investment decision making authority also serves on the board of directors, or any committee appointed by the board of directors of the bank or credit union issuing the NCD. Purchases are limited to institutions which have long-term debt rated AA or higher with a nationally recognized rating service; and/or have short-term debt rated at least AA-1 with a nationally recognized rating service. NCD may not exceed two years in maturity. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in NCD with any one financial institution in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.

VI. Banker's Acceptances

Banker's Acceptances, otherwise known as bills of exchange or time drafts, are those which are drawn on and accepted by a commercial bank. Purchasers are limited to issuers whose short-term debt is rated A-1/P-1. Banker's Acceptances cannot exceed a maturity of 180 days. A maximum of 25 percent of the portfolio may be invested in this category. Furthermore, the amount invested in Banker's Acceptances with any one financial institution in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.

VII. Commercial Paper

Commercial paper of prime quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (A) or paragraph (B):

A. The entity meets the following criteria:

- 1) Is organized and operating in the United States as a general corporation.
- 2) Has total assets in excess of five hundred million dollars (\$500,000,000).
- 3) Has debt other than commercial paper, if any, that is rated AA or higher by a nationally recognized statistical-rating organization.

B. The entity meets the following criteria:

- 1) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
- 2) Has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.
- 3) Has commercial paper that is rated AA-1 or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Eligible commercial paper shall have a maximum maturity of 270 days or less and not represent more than 10 percent of the outstanding paper of an issuing corporation. A maximum of 25 percent of the portfolio may be invested in this category. Furthermore, the amount invested in commercial paper with any one issuer in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.

VIII. Time Certificates of Deposit

Time Certificates of Deposit (TCDs) placed with commercial banks and savings and loans. The purchase of TCDs from out-of-state banks or savings and loans is prohibited. The amount on deposit shall not exceed the shareholder's equity in the financial institution. To be eligible for purchase, the financial institution shall have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. TCDs are required to be collateralized as specified under Government Code Section 53630, et seq. The District, at its discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. The District shall have a signed agreement with the depository per Government Code Section 53649. TCDs may not exceed one year in maturity. A maximum of 20 percent of the portfolio may be invested in this category. Furthermore, the amount invested in TCDs with any one financial institution in combination with any other investments from that financial institution or issuer shall not exceed 20 percent of the portfolio.

IX. Money Market Funds

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.).

A. The company shall have met either of the following criteria:

- 1) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.
- 2) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

A maximum of 10 percent of the portfolio may be invested in this category.

X. California Asset Management Program

Shares of beneficial interest issued by the Board pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n), inclusive of Government Code Section 53601. There is no limitation as to the percentage of the portfolio that may be invested in this category.

XI. State of California Local District Investment Fund (LAIF)

There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the amount invested may not exceed the maximum allowed by LAIF.

TERM OF INVESTMENTS

It is the objective of the District to accurately monitor and forecast revenues and expenditures so that the District can invest funds to the fullest extent possible. Funds of the District shall be invested in accordance with sound treasury management principles.

Where this Policy does not specify a maximum remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

PROHIBITED INVESTMENTS

Any investment in a security not specifically listed above, but otherwise permitted by the California Government Code, is prohibited. Section 53601.6 of the Government Code specifically disallows investments in invoice floaters, range notes, or interest-only strips that are derived from a pool of mortgages. In addition to the limitations in Government Code Section 53601.6, this Policy further restricts investments as follows:

- I. No investment shall be made that has either (a) an embedded option or characteristic which could result in a loss of principal if the investment is held to maturity, or (b) an embedded option or characteristic which could seriously limit accrual rates or which could result in zero accrual periods.

- II. No investment shall be made that could cause the portfolio to be leveraged.
- III. Any security that could result in zero interest accrual if held to maturity shall not be made.

BANKS AND SECURITIES DEALERS

The General Manager is authorized to make investments based on the recommendations of the Board approved investment advisor. For investments made by an investment advisor, the Board authorizes the investment advisor to use broker/dealers and financial institutions that the investment advisor has reviewed and approved for investment purposes. The investment advisor's approved list shall be made available to the District upon request.

PURCHASE, PAYMENT, DELIVERY, AND SAFEKEEPING

A competitive bid process shall be used to place all investment transactions. All security transactions entered into by or on behalf of District shall be conducted on a delivery vs. payment basis. All securities shall be held in District's name by a third party custodian designated by the General Manager.

The only exception to the foregoing shall be depository accounts and securities purchases made with:

- I. Local government investment pools;
- II. Time certificates of deposit, and,
- III. Money market mutual funds, since the purchased securities are not deliverable.

Evidence of each of these investments shall be held by the General Manager.

PERFORMANCE

The District seeks to attain market rates of return on its investments throughout economic cycles, consistent with constraints imposed by its safety objectives and cash flow consideration. The General Manager shall continually monitor and evaluate the portfolio's performance.

FINANCIAL – TREASURY

Reserve

PURPOSE

The purpose of the Reserve Policy is to ensure that the District has sufficient funding available to meet its operating and capital obligations. Establishment of reserves also provides better alignment of the District's resources identified in long-term financial plans to the funding requirements for the 10-Year Capital Improvement Plan. Adequate reserves promote the District's bond ratings in the capital markets; provide financing flexibility; avoid potentially restrictive debt covenants; mitigate current and future risk; and ensure the stable service charges.

POLICY

I. General

The reserve funds shall be held in accordance with the District's investment policy. When reserve balances allow, inter-reserve fund borrowing and transfer may occur as a means of overall reserve fund stabilization.

II. Reserve Fund Designations

The establishment of reserve designations better links the District's available cash resources, as reported in the District's Year-end Financial Statements, to the Annual Budget and Capital Improvement Program. The integration of reserve designations makes the annual budget a more comprehensive document because it accounts for the accumulation and usage of all available resources instead of just the anticipated revenues and expenditures for that fiscal year. This expanded budget view can be used to explain future sewer service charges or capital borrowing to all interested stakeholders. The establishment of cash reserve designations also enhances long-term planning and management of the District's financial resources.

III. Development, Management, Oversight, and Reporting of Reserves

The development, management, and oversight of District reserves is intended to be aligned with the development, management, and oversight of the District budget. During

the annual budget development process, the General Manager develops an initial projection for the District expenses and revenues for the upcoming year. The General Manager will propose allocations to and from the reserves based on this reserve policy, District priorities, and/or direction from the Board. The accumulation and uses of the reserves are a component of the annual budget and are subject to Board review and approval. The annual budget will also report the final status of the reserves for the prior year based on the audited financial statements.

Consistent with established policy on the budget, the General Manager, with approval from the President of the Board, is authorized to expend up to \$100,000 directly from any of the unrestricted reserve accounts in the event of an emergency situation that would directly and critically affect the District's operations. The General Manager shall report to the Board the circumstances requiring the expenditures at its next meeting. Otherwise, Board approval is required prior to any transfer or expenditures of reserve funds that were not previously budgeted.

Board authorization is required to establish any new reserve designations.

IV. Reserve Types

Two major types of reserve funds have been established: Restricted Reserves and Unrestricted Reserves.

- A. **Restricted Reserves** These reserves represent assets that are legally or contractually obligated for a specific purpose. Typically, the Board does not have the authority to modify or remove these restrictions or reserves.
 - B. **Unrestricted Reserves** These reserves represent assets for future spending plans or concerns about the availability of future funding. They are not restricted, committed or assigned. The Board does have the authority to establish, modify, or remove these reserves. Reserve fund priority is Operating, Capital, Renewal and Replacement and Disaster Recovery as funding becomes available.
- V. Deductions (i.e., payments) from either reserve type shall follow documented District administrative and procurement policies and procedures. Any new or removal of reserve types will require an update to this policy and subsequent Board approval.**

VI. Commitment for Reserves The District has established the following designations for the restricted and unrestricted reserves.

A. Designations for Restricted Reserves

1) Capacity Charges – (Sewer) Connection Fee: The CA Government Code requires separate accounting of capacity charges and the application of interest to outstanding balances. The District shall use capacity charges on a first-in-first-out basis to finance current year capital projects. In the event that the amount collected in any given year exceeds capital project expenses, the District would have to hold the excess funds for future use. Should this situation occur, the excess funds will be placed in this Capacity Charge Reserve. Staff would then recommend these funds as a proposed funding source for the following fiscal year's Capital Improvement Program.

2) Coverage from Debt Service: This is a contractually obligated requirement to cover debt covenant requirements. The District shall maintain adequate reserve funding to maintain its debt service obligations.

The funds are added to this reserve after each debt service contribution from the annual revenue. Funds received in the fiscal period collected cannot be expended in that same fiscal year. Funds remain in this reserve until budgeted; these funds are preferentially used to fund approved projects from the Capital Improvement Program.

The distinction between this restricted reserve and the unrestricted Capital Improvement Program Reserve is in the source of funding. The Reserve for Coverage for Debt Service is considered to be restrictive due to debt covenant requirements that limit its usage to capital expenditures. The Capital Improvement Program Reserve is considered to be unrestrictive because its source is from service charges and/or other general purpose revenues and thus could be available to fund non-Capital expenses.

B. Designations for Unrestricted Reserves

The source of funds for these reserves is from service charges and/or other general purpose revenues. When funds are available for unrestricted reserves, they should be allocated to maintain the reserve requirements in the following preferential order listed below. All allocations to reserves are subject to Board review and approval.

- 1) **Operating Reserve:** Provide sufficient working capital to cover annual operating expenses and cash flow needs during the fiscal year. Provides for a comfortable margin of safety and can be utilized for sewer rate stabilization as required and approved.
- 2) **Capital Reserve:** Provide adequate funding to support the treatment plant and conveyance system cash funded and debt financed capital projects listed in the District's 10-year CIP. May be utilized to cover restricted reserve debt service obligations.
- 3) **Renewal and Replacement Reserve:** Provide funding for District on-going cash funded smaller treatment plant and conveyance system renewal and replacement projects on an annual basis. Maintain adequate funding to cover variable year over year project expenses and avoid debt financing of minor facilities.
- 4) **Disaster Recovery Reserve:** Provide a level of emergency capital for disaster recovery efforts until long-term financing is arranged.
- 5) **Self-Insurance and Deductible Reserve:** This reserve represents the deductible portion for the various insurance policies carried by the District. The District funds insurance premiums from the operating budget; however the operating budget would not be able to absorb the deductible portion for insurance claims that are filed. The funding level is \$100,000 and should be adjusted if there are changes to policy coverages or deductibles.

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VII. Reserve Policy Target and Minimum Balances: The District shall maintain reserve funding within established Target and Minimum balance levels as described below and set forth in the Reserve Policy.

	Operating Reserve	Capital Reserve	Renewal and Replacement Reserve	Disaster Recovery Reserve	Self-Insurance and Deductible Reserve
Target Balance	Nine-months of annual operation and maintenance expenses.	1.5 times the average annual 10-year CIP expenses. Includes debt service payments and other restricted reserve obligations.	Two-years of average annual renewal and replacement costs.	One-year of average annual 10-year CIP cash funded capital expenses.	\$100,000
Minimum Balance	Four-months of annual operation and maintenance expenses.	Funding only to cover the CIP debt service payments and other restricted reserve obligations.	One-year of average annual renewal and replacement costs.	\$250,000 minimum to aid in disaster recovery.	\$100,000

* Matrix was adopted by Board Action on September 2, 2014 except for Self-Insurance and Deductible Reserve.

VIII. Indemnification. District Personnel having oversight for the District in accordance with this Policy, in compliance with the Government Code, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

FINANCIAL – EXPENDITURE MANAGEMENT

General

PURPOSE

The purpose of the Expenditure Management Policy is to provide direction to staff on how the District's expenses shall be handled to comply with organizational mission, goals, objectives, and budgets.

BACKGROUND

The budget adopted by the SMCSD board serves as the policy document governing District expenditures. Expenditures are managed and categorized as District-wide, by department, and by major or special funding sources as shown in the Adopted Budget.

SMCSD's largest percentage of operating expenditures is for employees' salaries and benefits. Other operating expenditures include professional services, studies, operating permits and fees, chemicals, utilities, materials and supplies, facilities maintenance, equipment, and miscellaneous administrative expenditures. Capital expenditures include salaries and benefits for employees who work on designated capital projects; construction and related professional services contract payments; equipment acquisition costs; and associated materials and supplies procurement.

POLICY

I. Employee Compensation and Benefits

District staff shall follow applicable federal and state laws and regulations for administering the District's employee compensation and benefits. The specifics of District compensation and benefits are defined in District documents, such as:

- A. Personnel Policies and Procedures manual;
- B. Memorandums of Understanding and other agreements with employee groups;
- C. Agreements with CalPERS for health and retirement benefits; and
- D. Other agreements with other benefit providers.

District staff shall perform payroll processing on a bi-weekly basis covering a two-week period beginning on Saturday, ending on Friday, with payment on the corresponding Friday. Other types of payroll transactions such as merit award pay, leave cash-out and employee reimbursements will also be processed in conjunction with the bi-weekly payroll schedule. All payroll changes shall require a completed personnel action form with authorization by the appropriate managers prior to any changes being made in the payroll system.

- II. Accounts Payable: District staff shall adhere to the following policies when conducting District procurement and expenditure activities: *Policy Framework, Signature Authority, Contracting, Purchasing* All expenditures will include the appropriate support documentation (e.g., purchase order, invoice, account statement, receipt, and packing slip) and shall be approved by the Office Manager and/or General Manager. According to Generally Accepted Accounting Principles (GAAP), Finance staff shall review and record in a timely manner all accounts payable to ensure the proper recognition of expenses and liabilities. Finance staff shall charge payables to the proper accounting period based upon the date the services were provided and perform a monthly reconciliation of accounts payable.
- III. Petty Cash: District staff shall maintain a petty cash account that can be used for cash transactions of \$100 or less. Disbursements from petty cash shall be pursuant to Policy, *Purchasing*.

FINANCIAL – EXPENDITURE MANAGEMENT

Travel, Training, and Other Business Expense Reimbursements

PURPOSE

The purpose of the *Travel, Training and Other Business Expense Reimbursement Policy* is to define the authorization, payment, and reimbursement of travel, training, and other business expenses incurred by District staff while conducting District business. The expenses include routine business-related activities as well as registration, travel, lodging, meals, and incidental expenses while attending District approved or sponsored training, seminars, conferences, and meetings of professional and/or public organizations.

POLICY

I. General

The General Manager shall establish procedures for authorizing, paying, restricting, and reimbursing employees for travel, training, and other business-related expenses incurred by District staff. Meal per diem rates and rules are set by the General Services Administration (GSA) which are determined by the employee's destination within the Continental United States (CONUS). These per diem rates specify the amount of monetary reimbursement to be provided to government employees (and employees of private organizations which use GSA per Diem rates) who are travelling on business to various areas. Rates are set by fiscal year, effective October 1st of each year. Click this link to look up GSA per diem rates <http://www.gsa.gov/portal/category/104711>.

An employee who has been issued a State of California Purchase Card (District credit card) shall also comply with Policy, *Purchasing*, when using the purchase card for travel and training related expenses. Each employee is responsible for the expenses that he/she incurs while traveling on District business. The employee is encouraged to consult with his/her supervisor should he/she have any questions about his/her travel related expenses.

II. Required Authorization

District staff shall obtain supervisory, and/or General Manager's approval, as prescribed in the established procedures, prior to incurring any District expenses related to travel or other business functions. When alternatives are available, the District will pay for the least cost alternative. The expenses reimbursement will be submitted to the employee's supervisor, Office Manager, and/or General Manager for approval. The Office Manager will review the accounting and determine the reimbursement to the employee or the repayment for advances to the District, whichever is applicable. The decision of the General Manager shall be final in situations where there are conflicts of opinion regarding the appropriateness of reimbursements.

III. Federal Income Tax Withholding (FITW)

This Policy and related procedures shall comply with the IRS definition of reimbursements and accountable expenditures per *IRS Publication 463*. Reimbursements made to employees for purposes specified in this Policy are generally not subject to

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FITW, and thus not reported as other compensation on the employee's annual W2-Wage and Tax Statement. Any employee who does not follow this Policy when requesting a reimbursement will be solely responsible for any federal and state tax liabilities that result from the receipts of District funds.

FINANCIAL – FINANCIAL PLANNING

Annual Budget

PURPOSE

The Adopted Budget is a document specifying the allocation of District resources for the priorities approved by the Board of Directors for the fiscal year. The District's annual budget details revenues, operating and capital expenditures, and use of reserves. The adoption of a fiscal year budget by the SMCSD Board is a statutory requirement for California public agencies.

POLICY

The Board of Directors shall adopt a comprehensive balanced annual budget for the District prior to the start of each fiscal year (July 1 to June 30). A budget is considered to be balanced, 1) when all sources of operating revenue, including the use of reserves, is at least equal to the operating expenses and capital funding requirements, and 2) the District has satisfied any bonding and debt service obligations. The annual budget that is presented to the Board for adoption shall include the following components:

- Revenue Budget
- Expenditure Budget
- 10-Year Capital Improvement Program with budget allocations for upcoming capital projects and initiatives; and
- Financial Forecast.

I. Budget Development

The annual budget represents the District's financial blueprint to maintain effective wastewater operations that comply with the District's various operating permit requirements. The budget describes the funding requirements and operating costs associated with providing wastewater treatment services and the maintenance, replacement, and improvement of the facility infrastructure and assets. It shall include, but is not limited to, the following sections:

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A. Revenue Budget

The Revenue Budget shall detail and describe each salient revenue category, including, but not limited to, sewer service charges, capacity charge connection fees, permit fees, revenues from contract, and revenues for debt service payments and coverage. (See Policy, *Revenue Management*).

B. Expenditure Budget

Specific line-items shall be detailed, described, and explained for each salient operating expenditure category, including, but not limited to, salaries, benefits, professional services and studies, permits and fees, materials and supplies, facilities maintenance, equipment, treatment plant operations, and miscellaneous administrative expenses.

C. 10-Year Capital Improvement Program (CIP)

The CIP shall include the proposed capital expenditure budget for the upcoming fiscal year as well as the planned projects and initiatives for the following nine fiscal years. Each project shall be clearly described. The Board shall approve the following fiscal year proposed projects as part of the annual budget approval, and conceptually approve the projects shown in the following nine fiscal years. (See Policy, *Capital Improvement Plan*).

D. Financial Forecast

The Forecast shall present a multi-year comparison of the previous fiscal year's actual performance, current fiscal year's projected performance, and a projection of future revenues by all sources, expenditures, and the accumulation and use of reserves. The forecast shall guide the Board in determining current and future operating and CIP funding to meet the District's financial and operational needs and objectives. (See Policy, *Financial Forecast*).

At the discretion of the Board, the annual budget may also include policy statements, directives, and funding plans (e.g., grant, long-term and/or debt financing strategies) that explain and describe operational, capital, and/or organizational approaches for managing and handling the District's business and assets. Statements regarding performance

accomplishments, objectives, and measurements may be included.

The General Manager shall present a draft annual budget to the Board for review no later than the May Board meeting, prior to the start of each fiscal year. The Board shall approve the annual budget no later than the July Board meeting, prior to the start of each fiscal year.

II. Budget Reporting

During the fiscal year, the District's actual revenues and expenditures shall be tracked to the appropriate budget line-items in managing the District's financial and operational condition. Monthly budget status reports of revenues, and operating and capital expenditures by category shall be provided to the Board for its review.

III. Budget Amendments

In the event of unforeseen or unanticipated circumstances, amendments to the adopted fiscal year budget may be necessary. Budget amendments shall be considered when funds are justified, available, and necessary to maintain the District's ongoing operational and financial performance, and service expectations as directed by the Board. The Board shall approve budget amendments (except those authorized by the General Manager as noted below) that would increase the total aggregate fiscal year budget, based on the evaluation and recommendation of the General Manager that the proposed amendment meets the intent and purpose of this Policy. The General Manager shall establish and approve procedures for managers to, 1) request budget transfers within the adopted operating and capital budgets that do not increase the total aggregate fiscal year budget, and 2) to request budget amendments that would increase the total aggregate fiscal year budget subject to the General Manager's and/or Board's review and approval. In the event of an emergency, the General Manager can approve budget amendments that would increase the District annual budget, with the conditions that, 1) these amendments are necessary to maintain the District's ongoing and routine operations, and 2) the aggregate amounts of the amendments cannot exceed \$100,000. The General Manager shall notify the President of the Board about the situation and the reason for the budget amendment, and report to the Board about these actions at its next scheduled meeting.

FINANCIAL – FINANCIAL PLANNING

Capital Improvement Program

PURPOSE

The Capital Improvement Program (CIP) describes and explains the District's capital projects, delineated by type of capital project and funding source, over ten fiscal years (including the upcoming fiscal year). The CIP is a planning document that provides the District with an opportunity to evaluate and assess its capital needs from financial, engineering, operational, and planning perspectives. The CIP that is adopted by the Board of Directors reflects the capital project priorities for the District. It is a generally accepted accounting and budgeting practice for governmental agencies, particularly for capital-intensive enterprises such as wastewater treatment operations, to develop a long-term capital plan.

POLICY

The District's Capital Project and Construction Committee (CIP Committee) will prepare an updated 10-year CIP during the budget development process for each fiscal year. A 10-year CIP provides the Board, customers, public financing institutions, and other stakeholder groups with a sufficient long-term perspective on SMCSD's infrastructure improvements and capital financial needs. The 10-Year CIP is a planning document that provides a projection of future project costs on a reasonable escalated basis for the fiscal years in which the costs are planned to be expended. The Board shall review the 10-Year CIP as part of annual budget process, and the first year of the 10-Year CIP shall be incorporated into the District's Annual Budget for adoption. The later years of the 10-Year CIP will be incorporated into the District's Financial Forecast. (See Policies, *Annual Budget*, and *Financial Forecast*).

I. CIP Schedules, Project Descriptions, and Reporting

The CIP Committee shall prepare a CIP schedule which will include a description of each capital activity, an explanation of the need for the project, estimated project costs, and proposed project delivery method. During the fiscal year, District staff shall track and monitor actual capital expenditures against the appropriate budgeted projects to assist in managing the individual capital accounts. District staff shall provide periodic CIP status reports to the Board for its information, review, and possible management direction.

FINANCIAL - FINANCIAL PLANNING

Financial Forecast

PURPOSE

The Financial Forecast is an examination of the District's projected operating status. It provides a strategic perspective and direction for the budget process and serves as a financial planning document developed through the rate study process.

POLICY

District staff shall prepare a forecast of the District's financial resources that includes a status and projection of revenues by source, expenditures, capital requirements, and accumulation and use of reserves. The forecast is a multi-year comparison of actual revenues and expenditures from prior previous fiscal years, a projection of the current fiscal year revenues and expenditures, and a projection of future resources and expenditures. District staff shall present the forecast for Board review as part of the annual budget process and the forecast shall also be included in the District's annual budget. (See Policy, *Annual Budget*).

I. Guidance

The forecast will delineate revenues by source, and operating and capital expenditures by categories. Projections and analytical assumptions that are used in the forecast will be guided by Board directives, analyses of anticipated operational changes, District contract obligations, economic trends and indices, and financial data from prior fiscal years, along with other relevant financial and analytical perspectives. Balances of revenue and expenditures will be evaluated to determine application and availability of unrestricted cash reserves in the forecast as well as to meet Board directives regarding the reserve fund balance.

The forecast will assist the Board in determining the required current and future sewer service charge revenues to meet the District's financial and operational needs and objectives.

The Board may request periodic revisions to the forecast apart from the annual budget process to assist it with decisions on the future direction of the District.

FINANCIAL – FINANCIAL PLANNING

Debt Financing and Management

PURPOSE

The purpose of the Debt Financing and Management Policy is to ensure that when the District issues debt, or borrows from governmental sources, that the debt load is managed prudently to maintain the District's sound fiscal condition and protect its credit quality.

POLICY

I. General

The General Manager shall make recommendations to the Board of Directors concerning debt financing. Generally, recommendations shall be presented during the District's annual budget development process. Recommendations may be made at other times during the fiscal year to meet immediate District capital improvement needs and/or as relevant debt financings are made available to the District. The Office Manager shall be responsible for managing, implementing, and overseeing debt management for the District. These duties shall include, but are not limited to, developing an effective debt management program, accounting and analyzing debt, and coordinating with the General Manager and managers to determine and recommend the need for debt financing to meet the District's capital improvement needs. District staff shall ensure that the District's debt financing and issuances are consistent with the applicable federal and state financing and tax laws.

II. Conditions for Debt Financing Based on the recommendation of the General Manager, the Board shall approve borrowing or debt issuance to finance major capitalized expenditures (see Policy, *Assets Accounting*). The Board shall consider long-term and short-term debt financing mechanisms as appropriate to meet the objectives of the District's capital needs. The Board shall limit debt to financing the costs of planning, design, engineering, regulatory permit requirements, land acquisition, infrastructure, equipment, debt issuance, and any other costs permitted by state or local laws for wastewater facilities and special districts. When making a determination to proceed with debt structuring and financing, the Board shall consider the District's financial condition, sources of funding for the annual debt payment, the District's ability to repay the debt

without fiscal disruption to its effective operations and maintenance, economic trends affecting the District, financial benchmarks of other similar public agencies, and any existing and overlapping District debt. The Board shall consider the least costly financing mechanisms available (such as federal and state loan programs) when planning debt issuances and financing opportunities to take advantage of financial market conditions when possible.

The Board shall approve the issuance of revenue bonds as the debt instrument for the District. The Board will approve debt financing for capitalized expenditures based on the economic value and useful life of an asset. The term or the maturity of the debt financing should be consistent with the useful life of the asset to be financed. The Board shall not approve debt financing for routine or ongoing operating and maintenance costs, and non-capital furnishings and supplies with useful lives of less than one year.

The Board shall consider and approve cost-effective credit enhancements such as debt insurance or letters of credit as mechanisms to improve credit ratings and guarantees for principal and interest payments.

The Board shall approve a debt issuance process on a competitive or negotiated basis after making a determination that the appropriate process is in the best interests of the District.

The Board shall consider debt refunding to refinance outstanding debt that would reduce interest costs to the District, and/or remove any burdensome, restrictive, or irrelevant debt covenants. When approving debt refunding, the Board shall consider present value savings and other benefits to the District of restructuring the debt.

- III. Investment of Debt Proceeds District staff shall explicitly follow Policy, *Investments*, and any indenture documents or debt issuance agreements that are part of the debt financing program when investing debt proceeds.
- IV. Commingling of Debt Proceeds with Operating Funds Debt proceeds shall not be commingled with operating funds.

FINANCIAL – FINANCIAL PLANNING

Risk Management and Insurance

PURPOSE

The purpose of Risk Management and Insurance Policy is to provide direction to District staff on managing the District's liability, property, fixed assets, vehicles, and employee-related risks in a reliable, economical, and beneficial manner.

POLICY

The General Manager shall be responsible for managing all aspects of risks encountered by the District. As such, District staff shall coordinate and obtain appropriate levels of insurance coverage and implement other risk management and mitigating strategies and safety management approaches, as recommended by the California Sanitation Risk Management Authority (CSRMA). Acceptable risk management strategies need to be in compliance with applicable Federal and State laws and California Occupational Safety and Health Administration (CalOSHA) regulations. Insurance coverage and risk management strategies shall include, but are not limited to, liability, property, vehicles, Workers' Compensation, hazards, general safety, and loss control, and may consist of self-insurance programs when economical and cost-effective.

FINANCIAL – PROCUREMENT MANAGEMENT

Signature Authority

PURPOSE

The purpose of the Signature Authority Policy and Procedure is to define the signature approval levels within the District for the following types of procurement transactions:

- I. Purchase Orders
- II. Professional Services Agreements
- III. Maintenance Service Contracts
- IV. Equipment Procurement
- V. Materials & Supply Contracts
- VI. Construction Contracts (Administrative, Informally Bid, Formally Bid) and Change Orders

POLICY

I. Procurement Transactions

The General Manager shall approve procurement transactions equal to the amount specified by the California Uniform Construction Cost Accounting Commission (CUCCAC) for utilizing alternative bidding procedures for public project work. Approval and authority limits for Change Orders are shown separately.

The table below shows each procurement transaction type with its governing Tier and the General Manager's signature authority for each transaction type. Dollar amounts indicated are the limits as of the effective date of this policy, and will be adjusted over time as the CUCCAC limits are updated.

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Transaction Type	CUCCAC Tier	General Manager Authority
Purchase Orders	Tier I	Less than \$45,000
Professional Services Agreements	Tier I	Less than \$45,000
Maintenance Service Contracts	Tier I	Less than \$45,000
Equipment Procurement	Tier I	Less than \$45,000
Material & Supply Contracts	Tier I	Less than \$45,000
Construction Contracts – Administrative	Tier I	Less than \$45,000
Construction Contracts – Informally Bid	Tier II	Between \$45,001 and \$175,000
Construction Contracts – Formally Bid	Tier III	Must be approved by SMCSD Board

The Board of Directors shall approve procurement transactions greater than the current CUCCAC Tier amounts and shall approve all formally bid construction contracts.

II. Construction Change Order Limits

The construction change order (CCO) approval and signatory authority limits shall be as indicated in the table below:

Construction Amount Tier	General Manager Change Order Limits
1) Less Than \$300,000	
a) Change Order Limit	\$30,000
b) CCO limit if schedule impacted	\$55,000
2) \$300,000 to \$1,000,000	

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a) CCO limit	10% of construction contract amount
b) CCO limit if schedule impacted	20% of construction contract amount
3) Greater Than \$1,000,000	
a) CCO limit	\$100,000
b) CCO limit if schedule impacted	\$200,000
4) Emergency situations for any size project	SMCSD Board President approval if schedule impacted, with subsequent ratification by SMCSD Board

The Board shall receive the following change order reports from the General Manager, as appropriate:

- 1) CCO aggregate amount if it approaches the specified limit;
- 2) Periodic change order and contract update; and
- 3) An economic analysis of the project costs at the construction contract's completion.

III. Payment Transactions

The General Manager or designee shall approve payments up to the signature authority limits under Procurement Transactions, above. The General Manager shall approve all professional services and contractual progress payments regardless of amount after the contract(s) is approved and awarded by the Board.

District staff designated as responsible for specific line-items and/or categories in the adopted District's annual budget shall be responsible for reviewing single payments, which are related to the transactions covered by this Policy

Approval shall be based on justifying and verifying that the related work, services, and/or materials and supplies are completed per the scope of the procurement document.

FINANCIAL – PROCUREMENT MANAGEMENT

Contracting

PURPOSE

The purpose of the Contracting policy is to provide direction regarding how contracts and purchase orders should be awarded, processed, and approved to ensure integrity and consistency with established District policies and legal requirements. It also ensures that the most efficient, cost-effective, transparent, and accountable processes are used to select the most qualified service provider, and the most cost-effective materials and supplies vendor.

POLICY

I. Approval

This Contracting policy is used in conjunction with the Signature Authority Policy, which defines the signature responsibility and approval levels within the District for specific types of procurement transactions.

II. General Procedures and Processes

The General Manager shall establish the contracting procedures for the District. The District will standardize the contract development and engagement process to ensure selection of a responsive and responsible contractor and/or supplier to meet the purpose of this Policy and that comply with relevant State laws.

These procedures will ensure competitive and evaluative contract awards, and negotiated and sole source procurements, which include, but are not limited to, scope of work, quotations, proposals, bids, determining contractor and vendor qualifications, selecting proprietary sources, and emergency procurement. The General Manager shall ensure that the contracting and purchase order processes are conducted in an efficient and cost-effective manner. In doing so, effective and appropriate planning, timing, specifications, terms and conditions, pricing strategies, risk management, consolidating, and multiple quoting of contracts and purchases shall be considered. At the General Manager's discretion, the contract terms and conditions and form may be reviewed by legal counsel before the contract is executed.

III. Contracting and Procurement Processes

A. Public Construction Projects

District staff shall follow contracting processes, according to the Uniform Public Construction Cost Accounting Act (UPCCAA) and California Public Contract Code 20800, et seq. for Sanitary Districts. Construction projects performed under contract shall be evaluated under the following bidding parameters.

- 1) If the estimated cost of a project is less than the Tier I amount (refer to District Policy, *Signature Authority*) the General Manager can execute a contract or purchase order agreement for the defined services.
- 2) If the estimated cost of a project is within the Tier II amount, the project can be informally bid and the General Manager has the authority to execute a contract or purchase order agreement.
- 3) If the estimated cost of a project exceeds the Tier III amount, the contract is subject to Board approval.

B. Professional Services Agreements

District staff shall follow the following parameters for evaluating professional services contracts. The processes shall consider and evaluate the consultant's suggested approach, scope of work, proposed fees, relevant experience, and other qualifications that are in the best interests of the District.

- 1) For those services within the General Manager's signature authority, the General Manager has the discretion to negotiate an agreement directly with a consultant unless he/she determines that it is in the best interests of the District to conduct a formal request for proposal (RFP) and/or qualifications (RFQ) process.
- 2) For those services that exceed the General Manager's signature authority, the consultant shall be selected by an RFP or RFQ/RFP process. The contract shall be awarded to the best value service provider by the SMCSD Board.

C. Maintenance Services Contracts

District staff shall follow the following parameters for evaluating maintenance services contracts. Maintenance services are those activities defined by UPCCAA as, 1) routine, recurring and usual work for the preservation or protection of a publicly owned or operated facility for its intended purposes, 2) minor repainting, 3) landscape maintenance, or 4) work performed to keep, operate, and maintain publicly owned waste disposal systems.

- 1) For those California Uniform Construction Cost Accounting Commission (CUCCAC) Tier I maintenance services within the General Manager's signatory authority, the General Manager has the discretion to negotiate an agreement directly with a service provider unless he/she determines that it is in the best interests of the District to conduct a formal request for quotes from multiple service providers.
- 2) For those maintenance services that exceed the General Manager's signature authority, the service provider shall be selected by a request for quotes or bidding process. The maintenance contract shall be awarded by the SMCSD Board to the service provider with the lowest cost that can provide the defined scope of services.

D. Equipment, Materials, and Supplies Procurement

District staff shall conduct the following processes for procuring equipment, materials and supplies.

- a. For the purchase of equipment, materials, and/or supplies whose costs are within the General Manager's signatory authority, such procurements shall be performed under the District's Purchasing Policy.
- b. For the purchase of equipment, materials, and/or supplies that require the Board's approval, contracts or purchase orders shall be awarded to a vendor/supplier using the District's procurement procedures, unless sole source procurement is justified and approved by the Board.

E. Cooperative Agreements

The General Manager shall determine when the District may enter into intergovernmental cooperative agreements to achieve economies of scale, promote District goals and objectives, or where it is financially advantageous.

Cooperative agreements (such as “pooling” contracts) may be used when the District can join contractually with other governmental agencies to meet mutual contractual needs. Such agreements may be bid or negotiated together with the cooperating agencies, or utilize new or existing contracts (*piggyback contracts*) that allow for cooperative arrangements. Approval of these agreements shall be consistent with the District’s Signature Authority Policy.

Financial – Procurement Management Purchasing

PURPOSE

The purpose of the Purchase policy is to provide District staff with the direction to ensure continuity and uniformity in its purchasing operation for non-contract goods and services.

POLICY

I. Approval

This Purchasing Policy is associated with the District’s Signature Authority Policy, which defines the signature responsibility and approval levels within the District for specific types of procurement transactions. The process for complying with each method of procurement is explained below.

II. Blanket Purchase Order

At the beginning of each fiscal year, the administrative staff shall establish and distribute a list of blanket purchase order (open account) numbers, based on requests by managers and leads, to be used for purchases less than \$1,000. District staff shall communicate to the vendor the specific assigned purchase order (PO) number when making purchases to ensure the number is on all vendor invoices and related

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documents. In lieu of creating an open account, vendors may provide business credit cards to the District. With discretion, the General Manager shall approve applications for these types of cards after review by the Office Manager. The cards shall be used for purchases of less than \$1,000, and may only be used at the business where the card was issued. Managers shall designate the employees who are allowed to use these types of cards when purchases need to be made. Until an invoice is received, the designated employees or the Office Manager shall keep a record of the purchase (i.e., receipt, packing slip) to provide supporting documentation for invoice or statement payment processing. These cards shall also be governed by the same policies stated under the Purchase Card section below.

III. Purchase Order

District staff shall use a purchase order for purchases in amounts greater than or equal to \$1,000. All purchase orders shall be in writing using the appropriate form and documentation, have the appropriate approvals, and be submitted to the vendor for processing.

IV. Petty Cash

District staff can use petty cash for purchases of \$100 or less with vendors unable to establish an open account with the District and for necessary small infrequent expenses. The General Manager may authorize a petty cash disbursement greater than \$100 if it is determined to be a prudent and appropriate payment or reimbursement method, and in the best interest of the District. These expenses may include supplies, parts, bridge tolls, attendance at offsite meetings and trainings, multi-District meetings, etc. All requests for petty cash disbursements shall be in writing using the appropriate form and approved by the department manager. Petty cash disbursements are made by the Administrative Assistant or Office Manager.

V. State of California Purchase Card Program

The Board of Directors shall approve the number and type of management, supervisory, and administrative positions that are authorized to use purchase cards (credit cards). The General Manager shall issue the cards to the specific employees (cardholders) and establish procedures for the appropriate use for making District- specific purchases when

the above purchasing methods are impractical, inefficient, or not applicable. Monthly credit limits shall be set at \$5,000 for supervisors/designated staff and \$10,000 for Office Manager and General Manager. The Office Manager will serve as the administrator of the District's purchase cards. He/she will manage the District's account in accordance with the requirements of the Purchase Card Program and the Agency's policies, including, but not limited to, assigning purchase cards and purchase limits to authorized employee card holders, collecting and cancelling cards as needed, and reviewing purchase card transactions.

A. Use of Card

The cardholder shall be the only person authorized to sign for purchased items and shall be the only person to authorize telephone and online transactions using the purchase card. Cardholder shall not give or authorize use of card to another employee without the General Manager's approval. The employee who is assigned a purchase card is responsible for safeguarding the card as well as ensuring proper use of the card.

Managers ensure that purchase card use in their respective areas is consistent with this Policy/Procedure and other related procedures. Each cardholder is responsible for keeping a record of the purchase (i.e., receipt, packing slip) to document purchases on the purchase card's account statement. An approved purchase order is required before using the purchase card for any transactions over \$1,000. An approved travel preauthorization is required when using the purchase card for transactions related to training or travel on District business. Department managers are ultimately responsible for monitoring and approving all purchase card transactions within their department.

The Purchase Card shall not be used for the following purchases:

1. Professional Services (labor costs)
2. Contract Services
3. Capital/construction costs
4. Cash advances/personal use
5. Purchase of firearms, liquor, or cigarettes
6. Per Diem meal allowance
7. Items for personal, non-District use

B. Lost or Stolen Card

If a District purchase card is lost or stolen, the cardholder shall immediately report this to the Office Manager so that he/she can notify the Purchase Card Program.

C. Misuse of the Card

Any misuse of the purchase card or violations of the Purchase Card Program guidelines or this Policy, including, but not limited to, personal use of the purchase card, shall result in the loss of purchase card privileges. All cardholders are subject to disciplinary actions for misuse and misappropriations of District funds. Cardholders who use or allow use of the card for personal purposes shall reimburse the District for all incurred charges.

FINANCIAL – ASSET MANAGEMENT

Assets Accounting

PURPOSE

The purpose of the Assets Accounting Policy is to provide District staff with direction on financial accounting, reporting, and control of the District's capital assets.

POLICY

I. General

The General Manager and Office Manager shall ensure that capital assets are appropriately accounted for by funding source and asset category and that appropriate procedures are developed and implemented to meet the requirements of this policy. Department Managers and District staff shall ensure proper budgeting and purchasing guidelines are followed for capital assets, and that these assets are adequately controlled, secured, and used for appropriate District purposes.

II. Capitalization Threshold

For financial accounting and reporting purposes, the capitalization threshold shall be \$5,000 for each asset with an expected useful life of at least two years following the date of acquisition.

III. Assets

District staff shall account and report all assets with an original cost equal to or greater than the capitalization threshold. Such assets include those newly constructed, installed, or acquired items or significant additions, improvements, or replacements to existing assets which would significantly prolong the asset's useful life (e.g., plant infrastructure, land, buildings, furniture and fixtures, machinery, and equipment). All costs associated with purchase, construction, installation, and acquisition shall be considered including, but not limited to, direct labor, materials and supplies, design, engineering, other professional fees, contractor charges, legal fees, site preparation, installation, associated overhead and administrative costs, taxes, freight and

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transportation, and other expenditures and charges directly attributable to asset acquisition. For assets acquired through debt financing methods, expenses associated with costs of issuance and capitalized interest shall be considered. Capital assets donated to the District shall be capitalized at their estimated fair market value plus any associated costs (as described above) at the date of receipt. Expenditures related to routine repairs that maintain the existing condition of the asset or restores it to normal operating efficiency should not be capitalized, regardless of the amount, and shall be recorded as repair and maintenance expenses in that fiscal year.

The District has assigned the useful lives listed below to capital assets:

Treatment Plant	30 – 100 years
Equipment	5 – 25 years
Building	25 – 40 years
Office Equipment	3-10 years