

Mendocino County Russian River Flood Control & Water Conservation Improvement District
Policies

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Financial Management

2100 Accounts Receivable

It is the policy of the District that accounts receivable be reviewed monthly, as it is critical to the cash flow of the District and requires continued follow-up and attention.

Procedures:

- a) The accounts receivable balances are reviewed monthly by the General Manager and presented in a monthly financial staff report for approval by the Board of Trustees at the next Board meeting.
- b) Bills for sale and delivery of water not paid on or before the twenty-fifth (25th) day following the billing date are considered delinquent at which time notices are sent.
- c) Finance charges of 10% percent per month are assessed on all accounts past due as provided by District Ordinance #00-01.
- d) Credit memos are limited to control of the General Manager or designee.

2101 Charges for Copies

The District will charge twenty five (25) cents per page requested by a member of the public or an organization. If copies are to be mailed, the requestor will provide a self-addressed stamped envelope. There is no charge for electronic file transmissions.

2105 Asset Protection and Fraud in the Workplace

The District is committed to protecting its assets against the risk of loss or misuse. Accordingly, it is the policy of the District to identify and promptly investigate any possibility of fraudulent or related dishonest activities against the District and, when appropriate, to pursue available legal remedies.

This policy establishes procedures for clarifying acts that are considered to be fraudulent, describing the steps to be taken when fraud or other dishonest activities are suspected, and providing procedures to follow in accounting for missing funds, restitution, and recoveries.

Definitions:

1. Fraud – Fraud and other similar irregularities include, but are not limited to:
 - a) Claim for reimbursement of expenses that are not job-related or authorized by District policy;
 - b) Forgery, falsification, or unauthorized alteration of documents or records (including but not limited to checks, promissory notes, time sheets, independent contractor agreements, purchase orders, budgets, etc.);
 - c) Misappropriation of District assets (including but not limited to funds, securities, supplies, furniture, equipment, etc.);
 - d) Inappropriate use of District resources (including but not limited to labor, time, and materials);
 - e) Improprieties in the handling or reporting of money or financial transactions;
 - f) Authorizing or receiving payment for goods not received or services not performed;

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- g) Computer-related activity involving unauthorized alteration, destruction, forgery, or manipulation of data or misappropriation of District-owned or –licensed software;
 - h) Misrepresentation of information;
 - i) Theft of equipment or other goods;
 - j) Any apparent violation of federal, state, or local laws related to dishonest activities or fraud;
 - k) Seeking or accepting anything of material value from those doing business with the District including vendors, consultants, contractors, lessees, applicants, and grantees. Materiality is determined by the District’s Conflict of Interest Code which incorporates the Fair Political Practices Commission’s regulations;
 - l) Any other conduct, actions or activities treated as fraud or misappropriation under any federal or state law, rule or regulation.
2. Employee – In this context, “employee” refers to any individual or group of individuals who receive compensation, either full- or part-time, including members of the Board of Trustees, from the District. The term also includes any volunteer who provides services to the District through an authorized arrangement with the District or a District organization.
 3. Management – In this context, “management” refers to any manager, supervisor, or other individual who manages or supervises District’s resources or assets.
 4. Internal Audit Committee – In this context, if the claim of fraud involves anyone other than the District’s General Manager, the Internal Audit Committee shall consist of the General Manager, the District’s Legal Counsel, and any other persons appointed to the Internal Audit Committee by the General Manager. If the claim of fraud involves the District’s General Manager, the Internal Audit Committee shall consist of the President of the Board of Trustees of the District, the District’s Legal Counsel, and those persons appointed to the Internal Audit Committee by the President of the Board. Nothing contained in this policy shall be construed as requiring the General Manager or the President of the Board to appoint other persons to the Internal Audit Committee. Individuals appointed to the Internal Audit Committee by the General Manager or the President of the Board other than the District’s Legal Counsel shall serve at the pleasure of the General Manager or the President of the Board.
 5. External Auditor – In this context, “External Auditor” refers to independent audit professionals appointed by the District’s Board of Trustees to perform annual audits of the District’s financial statements.

Procedures

It is the District’s intent to fully investigate any suspected acts of fraud, misappropriation, or other similar irregularity. An objective and impartial investigation will be conducted regardless of the position, title, and length of service or relationship with the District of any party who might be or become involved in or become the subject of such investigation. An employee being investigated for fraud may request representation by a representative of any recognized bargaining unit that represents the employee.

The General Manager is responsible for instituting and maintaining a system of internal controls to provide reasonable assurance of the prevention and detection of fraud, misappropriations, and other irregularities.

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For claims of fraud the Internal Audit Committee shall have primary responsibility for investigation of activity covered by this policy. The District's General Counsel shall advise the Committee, the General Manager, and/or the Board President on all such investigations. Throughout the investigation, the Internal Audit Committee will inform the General Manager of pertinent investigative findings.

An employee will be granted whistle-blower protection when acting in accordance with this policy so long as they have not engaged in activity that violates this policy. When informed of a suspected impropriety, neither the District nor any person acting on its behalf shall:

- a) Dismiss or threaten to dismiss an employee providing the information,
- b) Discipline, suspend, or threaten to discipline or suspend such an employee,
- c) Impose any penalty upon such an employee, or
- d) Intimidate or coerce such an employee.
- e) Violations of this whistle-blower protection policy will result in discipline up to and including termination.

Upon conclusion of an investigation, the results will be reported to the General Manager or, if the investigation involves the General Manager, the Board President, either of whom shall advise the Board of Trustees. Following review of investigation results, the General Manager or the Board, as the case may be, will take appropriate action regarding employee misconduct. Disciplinary action can include employment discipline up to and including termination, referral for criminal prosecution, or both.

The General Manager or the General Counsel will pursue every reasonable effort, including court-ordered restitution, to obtain recovery of District losses from the offender, other responsible parties, insurers, or other appropriate sources unless the Board should otherwise direct in consultation with General Counsel.

Board of Directors Responsibilities

If a Board Member has reason to suspect a fraud has occurred, he or she shall immediately contact the General Manager or the Board President, if the activity involves the General Manager, and the District's Legal Counsel. The Board Member shall not attempt to investigate the suspected fraud or discuss the matter with anyone other than the General Manager or Board President, as the case may be, and the District's Legal Counsel. The alleged fraud or audit investigation shall not be discussed with the media by any person other than the General Manager or the Board President after consultation with the District's Legal Counsel and any Internal Audit Committee appointed as to the matter.

Management Responsibilities

Management staff are responsible for being alert to and reporting fraudulent or related dishonest activities in their areas of responsibility, remain familiar with the types of improprieties that might occur, and be alert for any indication that improper activity, misappropriation, or dishonest activity did occur or is occurring. When an improper activity is detected or suspected, management should determine whether an error or mistake has occurred or if there may be dishonest or fraudulent activity. If a manager determines a suspected activity may involve fraud or related dishonest activity, the General Manager should be contacted. If the activity involves the General Manager, it shall be reported to the Board President or the District's Legal Counsel.

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Managers should not attempt to conduct individual investigations, interviews, or interrogations other than as directed by the General Manager or General Counsel. However, management staff are responsible for taking appropriate corrective actions to implement adequate controls to prevent recurrence of improper actions.

Management staff should support the District's responsibilities and cooperate fully with the Internal Audit Committee, other involved departments, and law enforcement agencies in the detection, reporting, and investigation of criminal acts, including the prosecution of offenders. Management staff must give full and unrestricted access to all necessary records and Personnel to those responsible for identifying, investigating and remedying fraud and related dishonest acts. All District assets, including furniture, desks, and computers, are open to inspection at any time. No District officer, agent or employee has a reasonable expectation of privacy in District property and other resources to preclude such inspection.

In dealing with suspected dishonest or fraudulent activities, great care must be taken. Therefore, management staff should avoid the following:

1. Incorrect accusations;
2. Alerting suspected individuals that an investigation is underway;
3. Treating employees unfairly; and
4. Making statements that could lead to claims of false accusations or other offenses.

In handling dishonest or fraudulent activities, managers have the responsibility to:

1. Make no contact (unless requested) with the suspected individual to determine facts or demand restitution. Under no circumstances should there be any reference to "what you did", "the crime", "the fraud", "the misappropriation", etc;
2. Avoid discussing the case, facts, suspicions, or allegations with anyone outside the District, unless specifically directed to do so by the General Manager or the Board President; and
3. Avoid discussing the case with anyone inside the District other than employees who have a need to know such as the General Manager, Internal Audit Committee, or the District's Legal Counsel.
4. Direct all inquiries from the suspected individual, or their representative, to the General Manager, the Board President, or the District's Legal Counsel. All inquiries by an attorney representing a suspected individual should be directed to the General Manager or the District's Legal Counsel. All inquiries from the media should be directed to the General Manager or the Board President, if the activity involves the General Manager.
5. Take appropriate corrective and disciplinary action, up to and including dismissal, after consulting with the Board and Legal Counsel, in conformance with District policy and applicable law.

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Employee Responsibilities

A suspected fraudulent incident or practice observed by, or made known to, an employee must be reported to the employee's supervisor for reporting to the proper management official. When an employee believes their supervisor may be involved in inappropriate activity, the employee shall make the report to the next higher level of management and/or the General Manager. If the activity involves the General Manager, it shall be reported to the Board President or the District's Legal Counsel. A reporting employee shall refrain from further investigation of the incident, confrontation with the alleged violator, or further discussion of the incident with anyone, unless requested by the General Manager, Internal Audit Committee, the District's Legal Counsel, or law enforcement personnel.

Internal Audit Committee Responsibilities

Upon assignment by the General Manager or the Board President, an Internal Audit Committee will promptly investigate the allegations. In all circumstances where a reason to suspect a criminal fraud has occurred, the Internal Audit Committee, in consultation with the District General Manager or the Board President and Legal Counsel, if the General Manager is suspected of involvement in the fraud, will contact the appropriate law enforcement agency. The Internal Audit Committee shall be available and receptive to relevant, confidential information to the extent allowed by law after consultation with the District's Legal Counsel.

If evidence is uncovered showing possible dishonest or fraudulent activities, the Internal Audit Committee will:

1. Discuss the findings with management and the General Manager;
2. Advise management, if the case involves District staff members, to meet with the General Manager (or their designated representative) to determine if disciplinary action should be taken;
3. Report to the External Auditor such activities to assess the effect of the illegal activity on the District's financial statements;
4. Coordinate with the General Manager regarding notification to insurers and filing of insurance claims;
5. Take immediate action, after consultation with the Legal Counsel, to prevent the theft, alteration, or destruction of evidence. Such action shall include, but is not limited to:
 - a. Removing relevant records and placing them in a secure location, or limiting access to those records
 - b. Preventing the individual suspected of committing the fraud from having access to the records.
6. In consultation with the District Legal Counsel and the local law enforcement agency, the Internal Audit Committee may disclose particulars of the investigation to potential witnesses if such disclosure would further the investigation.
7. If the Internal Audit Committee is contacted by the media regarding an alleged fraud or audit investigation, the Internal Audit Committee will refer the media to the General Manager or Board President, if the activity involves the General Manager.

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8. At the conclusion of the investigation, the Internal Audit Committee will document the results in a confidential memorandum report to the General Manager or the Board President for action. If the report concludes that the allegations are founded and the District's Legal Counsel has determined that a crime has occurred, the report will be forwarded to the appropriate law enforcement agency.
9. The Internal Audit Committee shall make recommendations to the appropriate department as to the prevention of future similar occurrences.
10. Upon completion of the investigation, including all legal and personnel actions; all records, documents, and other evidentiary material, obtained from the department under investigation will be returned by the Internal Audit Committee to that department.

Exceptions

There will be no exceptions to this policy unless provided and approved in writing by the General Manager or the Board President and the District Legal Counsel. The Board of Trustees reserves the right to amend, delete, or revise this policy at any time by formal action of the Board of Trustees.

2110 Budget Preparation

A preliminary annual budget workshop shall be prepared by the General Manager in consultation with the Board Treasurer and reviewed by the Board at its meeting in April or May. The final annual budget shall be adopted at the Board meeting in June. Proposed budget amendments can be developed by the General Manager and Treasurer and presented to the Board for approval during any Board meeting throughout the year. Care should be taken to ensure the budget provides adequate revenues to cover expenses and maintain targeting reserve levels.

2115 Credit Card Use

A credit card shall be issued to the General Manager. Credit cards shall not be issued or used by members of the Board of Trustees. Directors will use their personal credit cards for lawful expenses of the District and seek reimbursement on a form provided by the District for that purpose.

- a) All credit card bills shall be paid in a timely manner to avoid late fees and finance charges.
- b) All credit card expenses shall be reasonable and necessary for the furtherance of District business. No personal expenses shall be charged on a District credit card. If a transaction involves both personal and District business, the employee shall pay for the transaction personally and request reimbursement by the District of the appropriate portion of the expense.
- c) All credit card transactions shall have third-party documents (receipts.)
- d) The Treasurer shall review and approve credit card transactions by the General Manager through review of the monthly credit card bill and related receipts.
- e) All records of the District involving credit card use, including receipts, invoices, and requests for reimbursement are disclosable public records to be maintained consistently with the District's records management policy.

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2120 Employment of Outside Contractors and Consultants

The District employs outside contractors or consultants to support District operations and implementation of the Board approved Strategic Plan. If public bidding requirements apply under law or the terms of any grant contract, the District shall comply to those requirements. Consultants will be selected based on the consultant's experience and qualifications. Consultants for engineering, architectural, and other professional services shall be evaluated based upon qualifications and not on cost of services per state law. Every person involved in the solicitation, selection, and approval of consultants shall comply with applicable conflicts of interest laws, including Government Code section 1090, the Political Reform Act of 1974, and the District's conflict of interest code.

2125 Expense Authorization

All purchases made for the District by staff shall be authorized by the General Manager and shall be in conformance with the approved District budget. Any purchase, whether operating, maintenance, or capital, which requires an expenditure of \$15,000 or less may be approved by the General Manager. Any commitment of District funds for a purchase or expense greater than \$15,000 shall first be submitted to the Board of Trustees for approval or shall be in conformance with prior Board action and/or authorizations. Payments included in a Board approved contract, which exceed the purchase approval threshold will be considered approved and may be paid by the General Manager or designee.

The General Manager shall have the authority to make payments on those monthly and recurring expenses that routinely fall below the purchase approval threshold and are considered normal business expenses.

The limits, restrictions and procedures set forth in this Policy shall be subject to any and all applicable annual budgetary amounts, contract terms and other authorizations as may be imposed by the Board of Trustees from time to time.

A "petty cash" fund may be maintained in the District office having a balance-on-hand maximum of \$200.00. Petty cash may be advanced to District staff or Directors upon their request and the execution of a receipt for same, for the purpose of procuring item(s) or service(s) appropriately relating to District business and a receipt for same shall be submitted to the General Manager with any remaining advanced funds shall be returned. No personal checks shall be cashed in the petty cash fund. The petty cash fund shall be included in the District's annual independent accounting audit.

Whenever employees or Trustees of the District incur "out-of-pocket" expenses for item(s) or service(s) appropriately relating to District business as verified by valid receipts, said expended cash shall be reimbursed upon request from the District's petty cash fund or by warrant request if needed. In those instances when a receipt is not obtainable, the requested reimbursement shall be approved by the General Manager before remuneration. The District may establish a reimbursement request form and, if it does, no reimbursement will be made without submission of a request on that form. Requests for reimbursement to the District must have a good faith basis. Submission of a request for a reimbursement without such a basis shall subject the requestor to appropriate sanctions, up to and including termination of employment and referral to an appropriate law enforcement agency for prosecution.

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2130 Investment of District Funds

The cash management system of the District will be maintained to accurately monitor and forecast expenditures and revenues, thus enabling the District to invest funds to maximize efficiency as allowed by Government Code. This investment policy applies to all financial assets of the District. These funds are accounted for in the annual audited financial statements of the District.

The Board and persons authorized to make investment decisions subject to these policies are fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a fiduciary shall act 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 the agency, 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 the District. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation. Investment officers acting in accordance with written procedures and the investment policy 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.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

As specified in California Government Code Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements, which might be reasonably anticipated.
3. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering the investment risk constraints and the cash flow characteristics of the portfolio.

Funds may be invested in banks which are insured by the Federal Deposit Insurance Corporation. Savings accounts and active bank accounts will be insured and/or collateralized to the degree consistent with or exceeding the existing law or regulation. In accordance with California Government Code Section 53635.2, to be eligible to receive District deposits, a financial institution shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities.

Funds may also be invested in the Local Agency Investment Fund (LAIF) and the California Cooperative Liquid Assets Securities System (CLASS.)

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Delegation of Authority

The Board is permitted under Government Code Section 53607 to delegate responsibility to invest or reinvest District funds or to sell or exchange securities so purchased. Management responsibility for the investment program is hereby delegated by the Board to the General Manager and Treasurer who shall make all investment decisions and transactions in strict accordance with state law and with this Policy.

If authorized by the Board, the General Manager and Treasurer may utilize an external investment advisor to assist with investment decision-making and trade execution authority. The investment advisor shall be under the supervision of the General Manager and Treasurer and shall follow this Policy and such other written instructions as are provided.

The General Manager and Treasurer shall propose balance targets for investment accounts for Board approval annually at the time of budget development, considering anticipated expenditures and the District's Reserve Policy. The Board shall receive an account balance sheet monthly and can initiate and approve changes throughout the fiscal year.

The District will comply with the reporting requirements as defined in GC §53646 et seq. and GC §53607.

2150 Reserve Policy

The District shall maintain reserve funds from existing unrestricted funds as designated by the District's Reserve Policy. The Board of Trustees adopts policies to maintain a prudent level of financial resources and provide cost-effective, efficient public services through a stable rate structure and gradual rate increases. The District must be prepared for larger-scale regional investments that help to secure water resources within its service area and must be prepared for sudden emergencies and unexpected costs. This policy establishes the procedure and level of reserve funding to achieve the following specific goals:

- a) Fund replacement and major repairs for the District's physical assets.
- b) Fund regular replacement of computer hardware and software.
- c) Fund designated projects, programs, and/or other special uses not otherwise funded by grants or requiring additional monetary support;
- d) Fund capital improvements; and
- e) Maintain minimal operational sustainability in periods of economic uncertainty.

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Use of District Reserves is limited to available “Unrestricted” Funds (not obligated by law, contract or agreement), including donations, interest earned, fees for service, or other non-grant earnings. All special use funds will be designated by formal action of the Board of Trustees. The goal of the District is to maintain reserves at a level that equals or exceeds the sum of the following components:

- a) Operating Reserve:
Purpose: This amount is intended to mitigate funding six months of operating expenses.
Limit: 50 percent of the annual operating expense budget.
- b) Capital Reserve:
Purpose: This amount is intended to replace existing assets and fund future capital projects
Limit: 15 percent of gross fixed assets as of the audit of the prior year plus 10 percent of the annual operating expense budget.
- c) Emergency Reserve:
Purpose: This amount is intended to be protection against catastrophic loss and to provide a cushion in the event of unexpected circumstances.
Limit: 25 percent of the value of fixed assets
- d) Water Supply Reliability Reserve:
Purpose: Reserves set aside for the specific purpose of securing/purchasing water supply and/or infrastructure for storage or supply distribution.
Limit: The costs associated with the District’s share of these expenses could be as high as \$100 million. However, in order to initiate a prudent policy direction, the limit of this reserve shall not exceed \$20 million without further agreement on specific project participation and reserve assignment.

The District does not have a firm value to determine a contribution factor for Water Supply Reliability Reserve. Therefore, this Reserves Policy establishes that when revenue deposits exceed the account limits specified in District Policy, those exceedances will be deposited into Water Supply Reliability Reserve.

Monitoring Reserve Levels: The General Manager, in collaboration with the Treasurer, shall perform a reserve status analysis annually, to be provided to the Board of Directors’ annual deliberation/approval of Budget and Reserve Funds.

Additional information may be provided to the Board of Trustees upon the occurrence of the following events:

- a) When a major change in conditions threatens the reserve levels established by this policy or calls into question the effectiveness of this policy;
- b) Upon General Manager and/or Board request.

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2155 Debt Management

This Debt Policy is intended to comply with Government Code Section 8855(i) and shall govern all debt issued by the District. The District hereby recognizes that a fiscally prudent debt policy is required to:

- a) Maintain the District's sound financial position.
- b) Ensure the District has the flexibility to respond to changes in future service priorities, revenues, and operating expenses.
- c) Protect the District's creditworthiness.
- d) Ensure that all debt is structured to protect current and future taxpayers, ratepayers and constituents of the District.
- e) Ensure that the District's debt is consistent with the District's planning goals and objectives and capital improvement program or budget, as applicable.

Purposes for Which Debt May Be Issued

Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment, and land to be owned and operated by the District. Long-term debt financings are appropriate:

- a) When a project to be financed is necessary to provide District services.
- b) When the project to be financed will benefit constituents over several years.
- c) When total debt does not constitute an unreasonable burden to the District and its taxpayers or ratepayers.
- d) When the debt is used to refinance outstanding debt to reduce the total cost of the debt or to realize other benefits of a debt restructuring, such as increased flexibility in the use of cash and reserves.

Long-term debt financing will not generally be considered appropriate for current operating expenses and routine maintenance expenses. The District may use long-term debt financings subject to the following conditions:

- a) The project to be financed must be approved by the District Board.
- b) The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed.
- c) The District estimates that sufficient revenues will be available to service the debt through its maturity.
- d) The District determines that the issuance of the debt will comply with the applicable state and federal law.

Short-term debt may be issued to provide financing for the District's operational cash flows to maintain a steady and even cash flow balance as in anticipation of periodic receipts of property taxes and other revenues. Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment consistently with debt limit requirements of article XVI of the California Constitution, article XVI, § 18.

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Financings on Behalf of Other Entities

The District may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties to further the public purposes of District. In such cases, the District shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with this policy.

Types of Debt - The following types of debt are allowable under this Debt Policy:

- a) General obligation bonds (GO Bonds)
- b) Bond or grant anticipation notes (BANs)
- c) Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
- d) Other revenue bonds and COPs
- e) Tax and other revenue anticipation notes (TRANS)
- f) Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- g) Tax increment financing to the extent permitted under State law
- h) Refunding Obligations
- i) State Revolving Loan Funds
- j) Lines of Credit

The District Board may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy. Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

Relationship of Debt to Capital Improvement Program and Budget

The District is committed to long-term capital planning. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's capital budget and capital improvement plan.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues ("pay as you go"). The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes.

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The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the District to realize, whenever possible, and subject to any overriding non-financial policy considerations, the cost of refinancing should be less than the savings.

The District shall seek to time debt issues to avoid need for unplanned general fund expenditures for capital improvements or equipment.

Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the District shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. Without limiting the foregoing, the District will periodically review the requirements of and will remain in compliance with the following:

- a) Any continuing disclosure undertakings entered into by the District in accordance with SEC Rule 15c2-12 (17 CFR § 240.15c2-12 “Municipal securities disclosure”).
- b) Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
- c) The District’s investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the District upon the submission of one or more written requisitions by the General Manager of the District (or written designee), or (b) by the District, to be held and accounted for in a separate fund or account to ensure debt proceeds are expended only for the purposes for which the debt was issued, the expenditure of which will be carefully documented by the District in records compliance with current accounting standards and subject to the District’s annual audit.

2160 Internal Controls

There will be established procedures for the adequate separation of duties, including at least the following:

- a) all invoices presented for payment must be approved by the General Manager or designee;
- b) every check must be signed by two authorized signers and be in accordance with the District’s procurement policy.
- c) all paid invoices shall be indicated as paid, and filed for reference;
- d) a monthly financial report will be presented to the Board of Trustees for approval at a public Board meeting.

All checks drawn on any District account, including but not limited to those for payroll and accounts payable, all warrants of the District, and transfers shall be signed by any two Board members or one Board member and the General Manager.

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There will be an annual financial audit and any finding(s) shall be reported to the Board of Trustees with simultaneous notice to the General Manager.

There will be annual audits of the Property/Liability and Workers' Compensation Program claims paid by the District and those report(s) will be promptly presented to the Board of Trustees.

Excess funds may be deposited in or transferred to long-term investment accounts as the Board may, from time to time designate by resolution or policy. Funds in the investment account(s) shall only be withdrawn upon approval of the Board's Treasurer and General Manager. The requests for such transfers shall be signed by the General Manager and be supported by detailed information which shall be provided to the Treasurer approving the transfer and reported to the Board in the monthly financial reports.

To maximize interest earnings and manage District's cash flow needs, the General Manager will strive to maintain a reasonable balance in the checking accounts to off-set monthly bank charges, but at the same time recognizing that surplus funds should be transferred as appropriate to long-term investment accounts.

2165 Capital Assets

The District has an investment in capital assets such as equipment and one vehicle. To improve financial reporting, accountability, and operational efficiencies in managing these assets, the District has established policies for the accounting and reporting of capital assets.

Accurate records of capital assets and their associated accumulated depreciation can also help identify potentially needed replacement and renovation of existing assets. This type of management information is useful in making budgetary decisions for specific requests and long-term capital planning.

Statements of Principle

This policy provides a basis for maintaining and reporting auditable information on the District's capital assets in conformity with generally accepted accounting principles (GAAP)¹ and with Governmental Accounting Standards Board Statement No. 34 (GASB 34)², Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments, (effective fiscal year 2003 for the District,) which outlines the three basic statements of accounting principles:

- a) Reporting Capital Assets
- b) Valuation of Capital Assets
- c) Depreciation of Capital Assets

Two Classes of Capital Assets

The District has two classes of capital assets listed below. These are reported in the District's annual financial report and, as may be applicable, their respective capitalization thresholds for external financial reporting are as follows:

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1. Equipment, including renovations and improvements that cost more than \$2,000 each is a tangible asset, which may include:
 - a) Is not attached permanently to land, buildings, or land improvements
 - b) Has unique serial numbers
 - c) Is capable of being moved (although some disassembly may be required)
 - d) Can be acquired under a capital lease.

Costs of equipment include the total purchase price, net of purchase discounts, plus any trade-in allowances, transportation charges, installation costs, taxes, and any other costs required to prepare the asset for its intended use. Equipment should be reported as acquisitions when the District physically receives the asset, not at the time when it pays the vendor for the acquisition.

2. Vehicles, including renovations and improvements that cost more than \$10,000 each and are capable of being licensed through the California Department of Motor Vehicles.

Vehicle costs include the total purchase price after any purchase discounts, plus any trade-in allowances, transportation charges, taxes, and any other costs required to prepare the vehicle for its intended use.

Acquisition Methods and Valuation

Direct Purchase

Acquisition costs and costs to place the asset in use should be capitalized.

Exchanges or Trade-ins with Outside Parties

This section covers direct exchanges of assets, whether similar (i.e., assets within the same major class, such as one parcel of land for another similar parcel) or non-similar, between the District and a party external to the District's primary government (i.e., vendors, non-profit organizations, general public, etc.).

When no consideration is involved in the exchange of similar assets, the asset received should be reported at the net book value (historical cost net of accumulated depreciation) of the asset traded or exchanged. When the exchange is for dissimilar assets, however, the fair value of the newly acquired asset should be used for reporting the cost of the asset.

When consideration is either given or received in exchange of similar assets, then the asset received should be recorded at its fair value. Fair value in this case is defined as the sum of the cash paid plus the lesser of either the trade-in value given for the relinquished assets or the net book value of the relinquished asset at the time of the trade. When the exchange is for dissimilar assets, however, fair value is defined as the sum of the cash paid plus the trade-in value of the relinquished asset at the time of the trade.

Donations

Capital assets may be acquired by gift from individuals or organizations that are external to the District. In such cases, donated assets should be valued at their estimated fair value at the time of acquisition plus ancillary charges.

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Capital Assets Acquired through Grants or Contributions

Capital assets acquired through grants or contributions should be reported at historical cost or fair value and depreciated as appropriate. Policy updates will be required if assets do not fall within current asset classes.

Depreciation

In keeping with the third basis statement of principle of reporting capital assets, capital assets should be depreciated over their estimated useful lives unless they are inexhaustible. Inexhaustible assets, such as land, should not be depreciated. Accordingly, the District should depreciate capital assets reporting in Equipment and Vehicles Classes.

Depreciation is the process of allocating the cost of tangible property over a period of time, rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period (accumulated depreciation) will equal original cost less salvage value.

Depreciation Methods

There are many different methods used to calculate depreciation. Some methods allow more depreciation in early years than in later years. Some apply the same percentage each year while the basis declines. Others apply different percentages each year while the basis remains the same.

The District uses the straight-line method (straight-line depreciation is the recommended depreciation method for all government entities.) Under this method, the basis of the asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year. In general, the amount of annual depreciation is determined by dividing an asset's depreciable cost by its estimated life.

The total amount depreciated can never exceed the asset's historic cost less salvage value. At the end of the asset's estimated life, the salvage value will remain.

Fixed Asset Class	Minimum Amount	Depreciation Period
Equipment	\$2,000	5-10 years
Vehicles	\$10,000	10-15 years

Retirements

Reasons for Retirement

A capital asset should be reported as retired when it is:

- a) Scrapped or razed
- b) Sold or traded in
- c) Donated
- d) Lost, stolen, or destroyed

An asset should be retired or disposed of when it no longer serves its intended purpose. This can result from technological advances, normal wear-and-tear, destruction through natural causes, or theft.

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In cases where a capital asset has been damaged, and management intends to restore the functionality of the asset, the net book value of the portion of the asset that is being replaced should be removed from the total net book value of the asset. This amount, net any insurance proceeds, should be reflected as a loss. The cost to restore the asset to functionality should then be capitalized and depreciated over the remaining life of the asset.

Declaring an Excess or Surplus

When the District no longer has use for a capital asset, it should be declared as excess or surplus. After such declaration, the District should either transfer the capital asset to another agency, sell the asset at auction, or retire it.

Retention of Documentation

A resolution of surplus declaration or some other form of documentation on the declaration of surplus should be placed in the capital asset's permanent file.

Expeditious Retirement

Capital assets that are no longer needed for District operations should be expeditiously identified and retired.

Authorization for Retirement

The appropriate releasing authorization, and if necessary, receiving authorization, should be obtained when the District retires a capital asset.

Disposition Records

Disposition records should include:

- a) Disposition method and date
- b) Date of sale (if sold)
- c) Sale price (if sold)
- d) Method of determining fair value (if sold)

Record Retention

Records on disposed or retired assets should be maintained to comply with record retention schedules established for accounting records. If litigation involving capital assets has been initiated, the related records should be retained until the litigation is resolved.

Accounting Treatment for Retirements

A capital asset retirement should be recorded by crediting the appropriate capital asset account for the estimated historical cost of the asset, and by debiting the related accumulated depreciation account. Any net book value (remaining at the time of disposal should be offset against any proceeds received from the disposition of the asset to determine a gain or loss on the disposition. A gain results when proceeds received exceed the asset's book value; a loss results when the asset's book value exceeds the proceeds received.

Replacement

For an asset replacement, the original asset replaced should be reported as a retirement, and the replacement should be reported as a capital asset addition.

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References

- General Accepted Accounting Principles (GAAP) – The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements.
- Governmental Accounting Standards Board (GASB) – The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.