

SAN JUAN WATER DISTRICT

Board of Director's Workshop Minutes

February 18, 2016 – 4:00 p.m.

BOARD OF DIRECTORS

Pam Tobin	President
Ken Miller	Vice President
Ted Costa	Director
Dan Rich	Director
Bob Walters	Director

SAN JUAN WATER DISTRICT MANAGEMENT AND STAFF

Shauna Lorance	General Manager
Keith Durkin	Assistant General Manager
Donna Silva	Finance Director
Teri Grant	Board Secretary/Administrative Assistant

OTHER ATTENDEES

Bob Churchill	CHWD
Hilary Straus	CHWD

AGENDA ITEMS

- I. **Board Workshop – Government Finance**
- II. **Public Comment**
- III. **Adjourn**

President Tobin called the meeting to order at 4:00 p.m.

I. BOARD WORKSHOP – GOVERNMENT FINANCE

Ms. Silva conducted a presentation on Government Finance. A copy of the presentation will be attached to the meeting minutes. She informed the Board that she would be providing an update on the Finance Department and giving her 6-month assessment regarding the needs of the department.

Ms. Silva clarified the word “fund” so that the Board realizes when she talks about funds she’s referring to a separate and distinct set of books for an entity or special purpose that has its own balance sheet and income statement. She explained that the District, for legal and reporting purposes, is one proprietary or enterprise fund; however, for practical purposes she is recommending that the District be two funds – one fund for wholesale and one fund for retail. She explained that, for reporting purposes, the funds would be reported as one, but internally two separate funds are needed in order to maintain separate balance sheets and income statements.

Ms. Silva reviewed a sample Balance Sheet and Income Statement. She explained that the Balance Sheet is used to show assets and liabilities at any particular point in time, while the Income Statement reports on activity for a specific time period, such as a fiscal year. In addition, she explained that all transactions have two entries, and generally

speaking, one side of the entry affects the income statement while the other side affects the balance sheet.

Ms. Silva explained that once staff closes the Income Statement in the computerized accounting system, the net income or loss can only be transferred to one equity (or reserve) account in the accounting system. Therefore, if there are numerous reserves then staff has to manually transfer amounts into those accounts. She explained that this entry only happens at the end of the year and therefore staff is unable to inform the Board at any given moment what the reserve balance is. In response to Director Costa's comment, she explained that a budget is adopted at the first of the fiscal year which shows the beginning balances of the reserves – that budget will show how much of the reserves will be used or increased. She explained that the budget is tracked throughout the year and progress reports are generated, which will show the budget to actual amounts. She also explained that nothing goes in and nothing goes out of reserves on a monthly basis, there is only one transaction at the end of the fiscal year. In response to Director Costa's comment, Ms. Silva informed the committee that monthly reports are being generated and given to the department managers each month.

The Board discussed the accounting entry that placed grant proceeds in the fixed assets account instead of the cash account last year. Ms. Silva explained that this would have been found sooner had regular monthly bank reconciliations been completed. She reported that the Finance Department is almost caught up on all bank reconciliations.

In response to Director Miller's question, Ms. Silva explained that the reserve/equity figures in the Balance Sheet don't change until the Income Statement is closed out at the end of the fiscal year; however, the budget to actual report is used to track revenues and expenses. She reviewed a sample monthly report with the Board to show how staff tracks budget to actual expenses. Ms. Silva will start providing the Board with a budget to actuals report of the CIP projects for both wholesale and retail on a quarterly basis, as soon as the budget for the CIP projects are entered into the accounting system. Director Miller requested that the Finance Committee also have access to view the information during Finance Committee meetings.

In response to Director Rich's question, Ms. Silva explained that GASB 68 requires the District to show unfunded liability on the Balance Sheet effective fiscal year ending June 30, 2015. Therefore, a prior period adjustment is needed in order to place approximately \$6 million of unfunded liability on the Balance Sheet. She explained that liability will be increased and total equity will be reduced by this amount, which will show a negative equity.

Ms. Silva informed the Board that reporting reserves has been difficult for several reasons which includes lack of separate Balance Sheets for wholesale and retail, turnover of six Finance Directors in three years, excessive number of reserves, and assignment of revenues, with no way to track in accounting system. She explained that there was two separate Income Statements and only one Balance Sheet for wholesale and retail. In addition, there are 12 retail reserve accounts and 14 wholesale reserve

accounts; therefore, since the Income Statement closes to only one reserve account, manual accounting entries to distribute into the various reserves is necessary and time consuming. She explained that when revenue is assigned to a specific reserve, there is no way to automate the entry and it has to be a manual entry. She reiterated that the reserves do not get affected until the Income Statement closes at the end of the year.

Ms. Silva informed the Board that staff is already correcting one challenge by creating separate Balance Sheets for wholesale and retail. In addition, she informed the Board that there are an excessive number of reserves. Ms. Silva described what each reserve is used for and explained whether or not the reserve is needed. She explained that some reserves are not needed since they are recorded as a liability already. The Board discussed the reserves and the need for various ones.

Ms. Silva suggested that the Board consider using the wholesale PERS Stabilization Reserve of approximately \$400,000 to pay off some of the PERS unfunded liability, which could save approximately \$500,000 over the life of the unfunded liability term. She does not recommend doing this on the retail side since reserves are much lower at this time. Ms. Silva will bring this back to the Board for consideration.

She recommends that both wholesale and retail reserves be reduced to the following: Operating, Capital Improvement, Hinkle/Kokila Reservoir Lining, and Emergency Capital Improvement. Ms. Lorance commented that the Emergency Capital Improvement Reserve would not be needed since there has been no distinction between that reserve and Capital Improvement Reserve in the past.

Ms. Silva recommends creating two new funds, a Capital Reserve Fund for Wholesale and one for Retail. She explained that this will provide better reporting since each fund would have a separate Balance Sheet and Income Statement. In addition, revenue could be assigned to a Capital Reserve Fund and reporting would be much easier. There was no objection from the Board to create the two new funds.

In response to Director Walters' comment, Ms. Silva will make sure that an explanation of any changes to the reserve accounts be stated in the budget document. Ms. Silva will bring back resolution or ordinance amendments for those reserves that she is recommending be removed.

Ms. Silva reviewed efficiency opportunities with the Board which covered bank accounts, check signing, payment authorization, and bidding non-public works goods. She explained that the District has seven bank accounts, which is creating a very high level of undue complexity, including monthly reconciliation of each account. Ms. Silva reviewed the use and need of each bank account.

She recommends that the District reduce its bank accounts to two – a General Check Account and a PayPal Account. The PayPal Account is used for customers who pay their account on-line and a report can be generated in order to record the payments to each customer account. The PayPal Account is reconciled in order to assure that each

customer payment was received. The General Check Account would be used for everything else.

Ms. Silva reviewed the check signing ordinance, a Board motion and a resolution regarding check signing procedures. She informed the Board that the motion authorized staff to use the Board signature stamps for amounts under \$10,000 until the computer could generate such checks. She explained that Resolution 05-10 added Pam Tobin to the signature card and the minutes and the staff report reference a \$15,000 limit but that amount is not in the resolution, but has become practice.

Ms. Silva recommends that the District start using the computer system to generate checks. In addition, she recommends that the computer generate one electronic signature and that the second signature be a wet signature by any authorized signer (generally the Finance Director). She commented that the Board members should not be the primary signers on the checks and explained that their primary role is policy setting and oversight. She explained that by signing the checks, Board members are put in an administrative function and are therefore compromising their oversight.

The Board discussed the ability of a Board member to freeze a bank account or stop payment on a check. Ms. Silva will check into whether or not any two signers can perform transactions at the bank, and see what safeguards need to be put in place to protect the District's funds. Ms. Silva will bring this back to the Board.

Ms. Silva reviewed Ordinance 4000 regarding payment of invoices. The ordinance requires the District to pay invoices by the second Wednesday of the following month that the invoice was received in. In addition, the ordinance requires that the Finance Committee review the invoices and make a recommendation to the Board to approve those invoices. She explained that this is highly unusual, since the Board delegates some spending authority to the General Manager, and anything above that spending authority would need to be approved by the Board.

Ms. Silva provided the Board with information from a survey that she conducted that showed that only 4 of 70 respondents required board approval to pay the bills, and 9 of the 70 required board signatures on the checks. She explained that approving and paying invoices is another administrative management function, since the Board has already approved the expenditures.

She explained that the Board's oversight is reviewing the budget to actual reports, the mid-year budget review, and the review of the check register to see what invoices were paid. In addition, she added that the Finance Committee should be scrutinizing the financial reports and investment reports to ensure that staff is following the Board's policies as prescribed in the budget and the investment policy. The Finance Committee should also be approving reimbursements to the General Manager and could still be provided with the check register for the past month showing what has been paid.

Ms. Silva recommended that the invoices be paid as they come in, if under the Board's authorized spending limit. Ms. Lorange commented that this is for discussion and the

Board will need to be comfortable with the reports from the Finance Department before they make a decision on this. In response to Director Rich's question, Ms. Silva responded that currently the General Manager's authorized spending amount is \$50,000 for professional services and \$15,000 for purchase of goods. Ms. Silva would recommend one amount (\$50,000) for any invoice, with the understanding that public works goods over \$15,000 would need to follow the bidding process. The Board discussed the suggestion and agreed that the bills should be paid as they are received.

Ms. Silva informed the Board that currently any item over \$15,000 has to be publically bid. She explained that there might be some cost savings if there were some flexibility in the ordinance. She would like to work with Legal Counsel to add language to the ordinance to give flexibility for the purchase of non-public works related purchases.

Ms. Lorance reminded the Board that no action was being requested at this time. Ms. Silva commented that she will initiate the change regarding the check signing since the ordinance allows for that. In addition, she will bring back requests for actions for the Finance Committee's review and recommendation to the Board.

II. PUBLIC COMMENT

There were no public comments.

III. ADJOURN

President Tobin informed the Board that the February 24, 2016, Board meeting has been cancelled.

Ms. Lorance informed the Board that there have been a lot of social media stories on the USBR release of water during a time when the State Water Board is requiring conservation. She provided the Board with the statement that she drafted and would like the Board to review and provide her with feedback. She explained that the statement would be placed on the Next Door website, on the District's Facebook page and sent out via an email blast. Director Walters suggested that it be sent to the customer who does the blog on Folsom Lake.

The meeting was adjourned at 6:30 p.m.

PAM TOBIN, President
Board of Directors
San Juan Water District

ATTEST:

TERI GRANT, Board Secretary



Finance Workshop

Donna Silva, Finance Director

February 18, 2016



Topics to Cover

Six Month Assessment & Recommendations:

- Reserve Accounting & Reporting
- Efficiency:
 - Banking
 - Purchasing
 - Bill Paying
 - Check Signing



Government Accounting 101

What is a “Fund”?

- Not a bank account, not cash, not revenue stream
- A separate and distinct set of books for an entity or purpose
- Unique Balance Sheet and Income Statement



Government Accounting 101

Number of Funds Principle

Governmental Units should establish and maintain those funds required by law and sound financial administration.

Only the minimum number funds consistent with legal and operating requirements should be established however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.



Government Accounting 101

Balance Sheets and Income Statements



Basic Accounting Equation

Assets – Liabilities = Equity
OR

What you have – what you
owe = what's left over



Balance Sheet

as of June 30, 20xx

ASSETS:	
Cash and Investments	\$ 165,000
Debt Reserve Fund (bank account)	10,000
Accounts Receivable	25,000
Fixed Assets (Net of Accum. Depn)	200,000
TOTAL ASSETS	\$ 400,000
LIABILITIES:	
Accounts Payable	\$ 35,000
Compensated Absences (Vac/Sick)	20,000
Bonds Payable	45,000
TOTAL LIABILITIES	\$ 100,000
EQUITY:	
Restricted Cash (Debt)	\$ 10,000
Invested in Fixed Assets	200,000
Unrestricted (Your Reserves)	90,000
TOTAL EQUITY	\$ 300,000
TOTAL LIABILITIES & EQUITY	\$ 400,000



INCOME STATEMENT

for the year ended 6/30/20xx

REVENUE:	
Water Sales	\$ 50,000
Connection Fees	5,000
Interest Income	1,000
TOTAL REVENUE	\$ 56,000
EXPENSES:	
Salaries and Benefits	\$ 30,000
Professional Services	5,000
Insurance	2,000
Materials and Supplies	1,000
Utilities	1,000
TOTAL EXPENSES:	\$ 39,000
NET INCOME	\$ 17,000



Reserves

Why has reporting been so hard?

1. Lack of Separate Balance Sheets for Wholesale and Retail
2. Turnover in the Finance Director Position
3. Excessive number of Reserves
4. Assignment of Revenues – with no way to track in accounting system
5. Just the way accounting systems work



Challenge

1. Lack of Separate Balance Sheets for Wholesale and Retail
2. Excessive number of Reserves

Solution

1. Create Separate Balance Sheets – one for Wholesale and one for Retail
2. Several Recommendations:
 - a. Eliminate unnecessary reserves
 - b. Board review to eliminate inconsistency and provide clarity
 - c. Create new funds for capital reserves



Wholesale Reserve Review

	Per Ordinance	Per CAFR	Per Spreadsheet
Operating	✓	✓	✓
Rate Stabilization	✓	✓	✓
Capital Improvement	✓	✓	✓
Hinkle Reservoir Lining	✓	✓	✓
Emergency Capital	✓		
Vehicle & Equipment	✓	✓	✓
Restricted COP Debt	✓	✓	✓
Restricted Employee Fund (Sec 125)	✓		
EE's Accrued Vacation/Sick Time	✓	✓	✓
Self-Insurance		✓	
PERS Stabilization		✓	✓
Delta/Water Rights			✓
Connection			✓



Retail Reserve Review

	Per Ordinance	Per CAFR	Per Budget
Operating	✓	✓	✓
Capital Improvement	✓	✓	✓
Kokila Reservoir Lining	✓	✓	✓
Capital Facility Fees	✓	✓	
Vehicle & Equipment	✓	✓	✓
Emergency Capital Improvement	✓	✓	✓
Restricted COP Debt	✓		
EDA Loan Debt Reserve	✓		
Restricted Employee Fund (Sec 125)	✓	✓	✓
EE's Accrued Vacation/Sick Time	✓	✓	✓
PERS Stabilization		✓	✓
Developer Deposits		✓	✓



Proposed Reserves Wholesale & Retail

	Wholesale	Retail
Operating	✓	✓
Capital Improvement	✓	✓
Hinkle/Kokila Reservoir Lining	✓	✓
Emergency Capital Improvement	✓	✓



Challenge

1. Lack of Separate Balance Sheets for Wholesale and Retail
2. Excessive number of Reserves
3. Assignment of Revenues with no way to track in accounting system

Solution

1. Create Separate Balance Sheets – one for Wholesale and one for Retail
2. Several Recommendations:
 - a. Eliminate unnecessary reserves
 - b. Board review to eliminate inconsistency and provide clarity
 - c. **Create new funds for capital reserves**



Proposed Reserves Wholesale & Retail

	Wholesale	Retail
Operating	✓	✓
<i>Capital Improvement</i>	✓	✓
<i>Hinkle/Kokila Reservoir Lining</i>	✓	✓
<i>Emergency Capital Improvement</i>	✓	✓



Challenge

1. Lack of Separate Balance Sheets for Wholesale and Retail
2. Excessive number of Reserves
- 3. Assignment of Revenues with no way to track in accounting system**

Solution

1. Create Separate Balance Sheets – one for Wholesale and one for Retail
2. Several Recommendations:
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Efficiency Opportunities

- Bank Accounts
- Check Signing
- Payment Authorization
- Bidding Non-Public Works Goods



Too Many Bank Accounts

At US Bank:

- General Checking Account
- Payroll Account
- Reserve Account
- PayPal Account
- Restricted Employee Fund Account
- Emergency Account
- Transmittal Trust



Recommended Bank Accounts

At US Bank:

- General Checking Account
- PayPal Account



Check Signing Requirements

Ordinance 3000.06:

Issued checks must be signed by at least two persons authorized by the Board to sign such checks.

Motion 9/10/1997:

Authorized staff to use Director's signature stamps for any checks previously approved by the Finance Committee under \$10,000 until the computer system can generate such checks.

Resolution 05-10:

Updated for Pam Tobin. Minutes & staff report reference \$15,000 - no mention in resolution – has been practice.



Check Signing Current Practice

Board Signature Stamp thought to be required for checks up to \$15,000.

Board wet signs checks \$15,000 and greater.

Authorized staff sign checks that cannot wait for the board meeting if they are under \$15,000, if greater then Board Members must come in to sign.



Check Signing Recommendation

SYSTEM GENERATED

General Manager

WET SIGNATURE

Any authorized signer

Generally Finance
Director/Treasurer



Check Signing Recommendation

Rationale:

1. Board Member Protection and Remedies ★
2. Improve Internal Controls
3. Efficiency



Efficiency Opportunities

- ✓ Bank Accounts
- ✓ Check Signing
- Payment Authorization
- Bidding Non-Public Works Goods



Payment Authorization

Ordinance 4000 states:

Invoices and statements received for goods and services delivered during any month shall be processed for payment by the second Wednesday of the following month. Such invoices and statements shall be presented for review by the Board Finance Committee and subsequent recommendation to the Board of Directors for payment authorization.



Payment Authorization

2016 SURVEY RESULTS

	Yes	No	Total
Board Approves Payments	4	66	70
Board Signature Required	9	60	69



Payment Authorization

Rational for Change

- Policy and Oversight vs. Administrative Functions
- Efficiency
- Image



Efficiency Opportunities

- ✓ Bank Accounts
- ✓ Check Signing
- ✓ Payment Authorization
- Bidding Non-Public Works Goods



Summary of Board Approval

- Amendments to Ordinance 3000 to:
 - eliminate and/or establish certain reserves
 - potentially remove assignment of revenues
 - eliminate requirement for Payroll and Trust Checking Accounts
 - remove requirement for resolution to establish bank accounts or, create the required resolutions.
- Amend Ordinance 4000 to eliminate need for Board to approve payment of invoices.
- Amend Appendix C of Code of Ordinances to add flexibility for the purchase of non public works related purchases.



THANK YOU AND
GOODNIGHT