

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER

FROM: LISA BOGNUDA
FINANCE DIRECTOR

DATE: FEBRUARY 5, 2016

AGENDA ITEM
2
FEBRUARY 9, 2016

REVIEW FY 2016-2017 BUDGET PREPARATION TIME LINE

ITEM

Review FY 2016-2017 Budget preparation time line

BACKGROUND

Below is a proposed schedule for the preparation of the 2016-2017 Fiscal Year Budget.

February 26	Capital Improvement Projects Budget and District Engineer submittals to Lisa
Week of March 7	Kick off meeting with Finance and Audit Committee to hear input
Week of April 11	Staff circulates Draft Budget to Finance and Audit Committee
Week of April 18	Staff meets with Finance and Audit Committee and receives recommendations/changes/deletions on Draft Budget
May 11 or 25	Review of Draft Budget by Board of Directors at Regular Board meeting
Week of May 30	Staff circulates Final Budget based on recommendations received by Board of Directors
June 8	Public Hearing and Adoption of 2016-2017 Budget

RECOMMENDATION

It is recommended that the Committee review the proposed schedule and provide direction to Staff.

ATTACHMENT

None

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS ^{MB}
GENERAL MANAGER

FROM: LISA BOGNUDA ^{LSB}
FINANCE DIRECTOR

DATE: FEBRUARY 5, 2016

AGENDA ITEM

3

FEBRUARY 9, 2016

REVIEW DRAFT REQUEST FOR PROPOSAL (RFP) FOR AUDIT SERVICES

ITEM

Review draft Request for Proposal (RFP) for audit services

BACKGROUND

Pursuant to Special District Law, the Board of Directors shall provide for regular audits of the District's accounts and records. An audit is performed on the accounts and records of Nipomo Community Services District every year by an independent Certified Public Accountant (CPA).

The District contracts for auditing services under a three year contract. With the completion of the June 30, 2015 audit, the three year contract with The Crosby Company is complete. It is District practice to seek proposals every three years for auditing services.

Attached is a draft Request for Proposal for Independent Audit Services for review and comment. Upon direction from the Finance and Audit Committee, Staff will circulate the Request for Proposal for auditing services for fiscal years ending June 30, 2016, 2017 and 2018 and request responses by March 7, 2016.

The proposals received by the deadline will be presented to the Finance and Audit Committee for review and recommendation to the Board of Directors.

RECOMMENDATION

It is recommended that the Committee review the draft RFP and provide direction to Staff.

ATTACHMENT

- A. Draft Request for Proposal for Independent Audit Services

February 9, 2016

ITEM 3

ATTACHMENT A



REQUEST FOR PROPOSAL
(RFP)

for

INDEPENDENT AUDIT SERVICES

FEBRUARY 2016

NIPOMO COMMUNITY SERVICES DISTRICT
148 South Wilson Street
Nipomo, CA 93444
(805) 929-1133
(805) 929-1932 fax

1.0 GENERAL

1.1 Purpose

The Nipomo Community Services District (District) is soliciting proposals from accounting firms that are interested in providing audit services to the District. The audit period will be for the fiscal year ending June 30, 2016 with options to renew for annual audits for the fiscal years ending June 30, 2017 and June 30, 2018.

1.2 Agency Description

The Nipomo Community Services District (District) is a multi-purpose special district and was formed on January 28, 1965 and began operations in November 1966. The District is a political subdivision of the State of California and operates under a Board of Directors – General Manager form of government. The District provides water, sewer, street lighting, solid waste, street landscape maintenance, drainage and general administrative services. The District currently has 17 full-time employees.

The District has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA) for submission of its Comprehensive Annual Financial Report (CAFR) for the past two years.

Detailed financial information, including copies of recent operating budgets and CAFRs, can be found on the District's website at www.ncsd.ca.gov.

1.3 Computer and Accounting System

The District is in the process of converting all of its accounting and utility billing records from the Corbin Willits System (aka MOM) to Tyler Technologies (Incode). It is anticipated the conversion will be complete by May 2016.

1.4 Contact Information

Any questions about this RFP should be directed to:

Lisa Bognuda – Finance Director
Nipomo Community Services District
P.O. Box 326
Nipomo, CA 93444-0326
Phone: (805) 929-1133
Fax: (805) 929-1932
Email: lbognuda@ncsd.ca.gov

1.5 Submittal Requirements

Interested accounting firms shall submit one electronic copy of their Response to RFP in PDF format to the District no later than **4:00 p.m. on Monday, March 7, 2016**. All submittals should be sent to lbognuda@ncsd.ca.gov.



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2.0 DESIRED SERVICES

The District desires its audited annual financial report to include financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standard Board (GASB) practices. The examination by the auditors of such financial statements shall be performed in accordance with Generally Accepted Auditing Standards (GAAS) and in compliance with all laws. The auditor is expected to provide technical assistance for preparation of its CAFR for submittal to the GFOA.

The District will prepare and submit the State Controller's Annual Report for Special Districts.

2.1 Project Objectives and Anticipated Scope

The selected auditor will be required to attend a minimum of three meetings:

1. Meet with District Staff and the Finance and Audit Committee prior to the commencement of the audit to review the audit program, including proposed dates for completion of audit tasks.
2. The auditor will meet with District Staff and the Finance and Audit Committee to review the administrative draft of the report (no later than September 30 of each year). At this meeting the CPA will disclose all findings or situations that the auditors feel are weak or problematic. It is also anticipated that the auditor will review and assess internal controls and make recommendations to improve the current procedures. The District will receive a management letter from the auditor reflecting the above items. Any irregularities and illegal acts during the audit shall be reported immediately in writing to the General Manager and the Finance Director, or to the Board President, if applicable. The auditor may be asked to provide guidance on implementation of GASB requirements or any federal and state regulations as they effect the local government.
3. The auditor will present the audited financial statements and all findings to the Board of Directors at a regularly scheduled Board meeting (no later than November 30).

These deadlines must be adhered to in order to facilitate the District's preparation and submission of the California State Controller's Annual Report by mid-October each fiscal year as well as submission of the CAFR to the GFOA for award consideration by mid-December.

The District will be prepared for field work to begin no later than August 10 each year.

District staff is available to assist the auditors by providing information, documentation and explanations. The District will provide the trial balance, all schedules and other related items, including a MD&A, prepared by Lisa Bognuda, Finance Director (CPA with inactive license).

The District will provide the auditor with reasonable work space, phone, internet and copy machine access.

The audit report shall consist of, but not be limited to the auditor's report and opinion, a management letter, statement of net position, statement of cash flows, statement of revenues, expenses and changes in net position, notes to the financial statements, any required supplementary information, and any other additional information that may be applicable or pertinent to the audit as would be customary for a complete and conforming audit by current standards and regulations.

Report preparation, editing and printing will be the auditor's responsibility.

2.2 Optional Additional Work – Review of Nipomo Supplemental Water Project Fund

The District has entered into a Supplemental Water Management and Groundwater Replenishment Agreement (Agreement) with two local water purveyors and is in its first year of implementation. The maintenance of the accounting records are the responsibility of the District pursuant to the agreement. A separate Review by an accounting firm is not required of the Agreement; however, it is being considered by the District. A separate quote is requested for this work and a decision to proceed with the work will be determined by the Board of Directors.

3.0 RFP REQUIREMENTS

As previously mentioned, responses should be submitted electronically in PDF format. Required proposal elements are outlined in this section. Submittals may contain additional information but it is necessary to maintain the specific headings or order presented below.

3.1 Firm Overview

Provide a general overview and history of your firm that describes general capabilities and practice areas. Include a list of office locations and identify the office that would be the primary point of service for District projects. Responses may also contain a description of your firm's approach to quality assurance and other key operating practices. Responses should include affirmative statement of independence from the Nipomo Community Services District and affirmative statement that the firm and assigned staff are licensed to practice in California.

3.2 Experience Summary

This section should include summaries of your firm's overall experience and qualifications performing governmental and special district audits. Responses may also include engagements in the last five years that are similar to that anticipated for our organization.

3.3 Personnel

Provide a list of key personnel within your organization that would be expected to contribute to performance of the audit. Provide a description of individual experience/qualifications and include professional resumes, if appropriate.

If your firm would typically assign a client manager or a single point of contact for services of this type, please identify the person that you propose to fill this role.

3.4 Scope of Services

Provide a scope of audit services that your firm would propose to undertake for this engagement. The scope should be responsive to the objectives and anticipated services outline in Section 2.1 and 2.2 and should include information on deliverables and other proposed services.

3.5 Proposed Fees

Provide a proposed lump sum fee for complete audit services, including all anticipated direct and indirect costs, for each year of three-year performance period (FY 2015/16, FY 2016/17 and FY 2017/18), based on the scope of services presented in your proposal.

Provide a proposed lump sum fee for review services as outlined in Section 2.2 above, including anticipated direct and indirect costs, for each year of three-year performance period (FY 2015/16, FY 2016/17 and FY 2017/18), based on the scope of services presented in your proposal

3.6 References

Provide at least three client references with complete contact information. Ideally, references would be from agencies or entities for which your firm has recently completed independent audit services that are similar to the District's.

4.0 SELECTION PROCESS

The District's objective is to select an accounting firm with the experience and resources necessary to meet the District's expressed needs.

Proposed Schedule:

Submittal Due	March 7, 2016
Selection Announced (expected)	March 23, 2016 or April 13, 2016

All responses received will be carefully reviewed by District management and the Finance and Audit Committee. The District may elect to create a short list, conduct interviews of selected firms or request additional information as part of the evaluation process.

Ultimately, the selected firm will be required to enter into a professional services agreement with the District. An example agreement is provided as Attachment A. Additionally, firms providing services will be required to comply with District's standard insurance requirements which are outlined in the example agreement.

The District reserves the right to reject any and all proposals submitted and to award the contract to the firm which, in the District's opinion is best qualified.

DRAFT

ATTACHMENT A

EXAMPLE PROFESSIONAL SERVICES AGREEMENT

DRAFT

NIPOMO COMMUNITY SERVICES DISTRICT

AGREEMENT FOR PROFESSIONAL SERVICES

This Agreement (herein referred to as "Agreement") is made by and between Nipomo Community Services District, a Community Services District duly existing and operating pursuant to the provisions of Government Code Section 61000 et seq. (hereinafter referred to as "NCSD" or "District") and _____ (herein referred to as "Consultant"), on _____, 2016, with reference to the following Recitals:

RECITALS

WHEREAS, District desires to contract with Consultant for certain professional services necessary to perform an independent audit of the District's finances on an annual basis for a three year period ("the Project"); and

NOW THEREFORE, in consideration of the mutual covenants and conditions contained herein, the Parties agree as follows:

1. Scope of Services

Consultant shall perform the professional services required to complete the Project for the District as described in Consultant's _____, 2016, proposal, attached as Exhibit "A" and incorporated by reference herein.

All work and services by Consultant shall be performed in a diligent and professional manner.

Consultant warrants that its services shall be performed, within the limits prescribed by the District, in a manner consistent with the level of care and skill ordinarily exercised by other accounting professionals under similar circumstances at the time its services are performed. Work shall also be performed in conformance with applicable government accounting standards. No other warranty or representation, express or implied, is included or intended by Consultant's Scope of Services, this Agreement, or any reports or documents prepared herewithin.

Consultant agrees to undertake the discrete tasks outlined in its scope of work only upon consultation with and authorization from District's General Manager.

_____, CPA shall serve as Project Manager (Engagement Partner) for all services provided to District by Consultant, shall personally perform or supervise the performance of services on a day-to-day basis on behalf of Consultant, and shall maintain direct communication with District's General Manager and/or Finance Director in the performance of Consultant's services.

2. Term of Contract

Unless otherwise earlier terminated as specified in Section 8, this Agreement shall commence on the date set forth above and shall expire on December 31, 2018.

3. Independent Contractor Relationship

- a. It is expressly understood between the parties that no employee/employer relationship is intended, the relationship of Consultant to District being that of an independent contractor. District shall not be required to make any payroll deductions or provide Workers' Compensation Insurance coverage or health benefits to Consultant.
- b. Consultant is solely responsible for selecting the means, methods and procedures for performing its services hereunder as assigned by the District and for coordinating all portions of the work so the results will be satisfactory to District. Consultant will supply all tools and instruments required to perform its services under this Agreement.
- c. Consultant pursuant to this Agreement is rendering professional services only and any payments made to it are compensation solely for such services as it may render and recommendations it may make in the performance of services.

4. Compliance with Laws

Consultant shall be solely responsible for giving all notices and complying with all applicable laws, ordinances, rules, regulations and lawful orders of any public authority relating to Consultant's work.

5. Acknowledgment of Relationship

Consultant agrees that all dealings of the parties under this Agreement shall be confidential and no drafts, writings, reports, data, information or communication developed, prepared or assembled by Consultant under this Agreement, or any information made available to Consultant by District, shall be revealed, disseminated or made available by Consultant to any person or entity other than District without the prior written consent of District, unless otherwise required by subpoena or applicable law. Copies of data, calculations, drawings and other documents developed, prepared, completed or acquired by Consultant during the performance of its services hereunder shall be turned over to District upon termination of this Agreement.

6. Payment to Consultant

- a. In consideration of Consultants services outlined in Exhibit "A", the District shall pay Consultant on a lump sum basis with a not to exceed amount of _____ Dollars (\$XXXXX), unless otherwise previously authorized, in writing, by District. Audit fees for each fiscal year of the three-year contract shall not exceed for FY 2015/16, _____ Dollars (\$XXX), FY 2016/17 _____ Dollars (\$XXXX) and FY 2017/18 _____ Dollars (\$XXXX). The Consultant's rates shall not be modified during the term of this Agreement. Invoices shall be submitted on a monthly basis or as the audit services progress. Final payment shall not be requested until all required reports have been submitted by Consultant. District shall pay Consultant within thirty (30) days after receipt of Consultant's invoices, with the exception of any disputed amounts which shall be withheld until resolution of the dispute.
- b. No payment made under this Agreement shall be conclusive evidence of Consultant's performance of the Agreement, either wholly or in part, and no payment shall be construed to be an acceptance of Consultant's work.

7. Responsibilities of NCSD

District agrees to provide to Consultant available information of relevance to Consultant's work, including all reports, data and documents pertaining to the Project, and those specific items requested in the Scope of Work for the project. District pledges to work cooperatively with Consultant and render all reasonable assistance toward completion of Consultant's work.

8. Termination of Contract

Consultant specifically acknowledges and agrees that District may at any time during the term of this Agreement terminate Consultant's services with or without cause, and without penalty, upon thirty (30) days' written notice, regardless of whether Consultant's service are completed. Any termination or any special instructions hereunder from District shall be made in writing. In the event this Agreement is terminated, copies of data, documents and information generated by Consultant shall be delivered to District and may be used by District. District acknowledges that the use of any incomplete documents under these circumstances shall be at its sole risk. Should such termination occur, Consultant shall immediately stop work, but shall have the right to expend additional time to assemble work in progress in order to properly close any particular portion(s) of its services. Any such additional time spent by Consultant and compensation attributable thereto shall not exceed ten percent (10%) of the total time expended by Consultant prior to the date of the notice of termination on that particular portion(s) of Consultant's services.

9. Indemnification and Hold Harmless

- a. **Indemnity for Professional Liability.** When the law and/or this Agreement establishes a professional standard of care for Consultant's Services, to the fullest extent permitted by law, Consultant shall indemnify, protect, defend and hold harmless NCSD and any and all of its officials, employees and agents ("Indemnified Parties") from and against any and all losses, liabilities, damages, costs and expenses, including attorney's fees and costs to the extent same are caused in whole or in part by any negligent or wrongful act, error or omission of Consultant, its officers, agents, employees or Subconsultants (or any entity or individual that Consultant shall bear the legal liability thereof) in the performance of professional services under this agreement.
- b. **Indemnity for other than Professional Liability.** Other than in the performance of professional services and to the full extent permitted by law, Consultant shall indemnify, defend and hold harmless NCSD, and any and all of its employees, officials and agents from and against any liability (including liability for claims, suits, actions, arbitration proceedings, administrative proceedings, regulatory proceedings, losses, expenses or costs of any kind, whether actual, alleged or threatened, including attorneys' fees and costs, court costs, interest, defense costs, and expert witness fees), where the same arise out of, are a consequence of, or are in any way attributable to, in whole or in part, the performance of this Agreement by Consultant or by any individual or entity for which Consultant is legally liable, including but not limited to officers, agents, employees or subconsultants of Consultant.
- c. **General Indemnification Provisions.** Consultant agrees to obtain executed indemnity agreements with provisions identical to those set forth here in this section from each and every subconsultant, subcontractor, or any other person or entity involved by, for, with or on behalf of Consultant in the

performance of this Agreement. In the event Consultant fails to obtain such indemnity obligations from others as require here, Consultant agrees to be fully responsible according to the terms of this section. Failure of NCSD to monitor compliance with these requirements imposes no additional obligations on NCSD and will in no way act as a waiver of any rights hereunder. This obligation to indemnify and defend NCSD as set forth here is binding on the successors, assigns or heirs of Consultant and shall survive the termination of this Agreement or this section.

- d. Neither termination of this Agreement or completion of the Scope of Services under this Agreement shall release Consultant from its obligations referenced in this Section, as to any claims, so long as the event upon which such claims is predicated shall have occurred prior to the effective date of any such termination or completion and arose out of or was in any way connected with performance or operations under this Agreement by Consultant, its employees, agents or consultants, or the employee, agent or consultant of any one of them.

10. Insurance

Submission of insurance certificates or submission of other proof of compliance with the insurance requirements in the Agreement does not relieve Consultant from liability referenced in this Section. The obligations of this article shall apply whether or not such insurance policies shall have been determined to be applicable to any of such damages or claims for damages.

11. No Assignment

This Agreement is a professional services contract and work hereunder shall not be delegated or assigned by Consultant to any person or entity without the advance written consent of District.

12. Examination of Records

Consultant agrees that District shall have access to and the right to examine at any reasonable time and on reasonable notice Consultant's documents, papers and records, including accounting records, relating to or involving this Agreement.

13. Notice

All notices or other official correspondence relating to contractual matters between the parties shall be made by depositing the same as first-class, postage paid mail addressed as follows:

To Consultant:

To District:

NIPOMO COMMUNITY SERVICES DISTRICT
Attn: Mario Iglesias, General Manager
148 South Wilson Street
Nipomo, CA 93444

or such other address as either party may designate hereinafter in writing delivered to the other party. All notices shall be agreed to have been received three (3) days after mailing.

14. No Waiver

No failure or delay by District in asserting any of District's rights and remedies as to any default of Consultant shall operate as a waiver of the default, of any subsequent or other default by Consultant, or of any of District's rights or remedies. No such delay shall deprive District of its right to institute and maintain any actions or proceeding which may be necessary to protect, assert or enforce any rights or remedies arising out of this Agreement or the performance of this Agreement.

15. Partial Invalidity

If any term, covenant, condition, or provision of this Agreement is found by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the provisions hereof shall remain in full force and effect, and shall in no way be affected, impaired, or invalidated thereby.

16. Terms

No alteration or variation of the terms of this Agreement shall be valid unless made in writing and signed by the parties. No oral understanding or agreement not incorporated herein shall be binding on any of the parties.

17. Incorporation of Recitals

The foregoing recitals are incorporated herein as though fully set forth.

18. California Law

This Agreement shall be interpreted and construed pursuant to the laws of the State of California. Any dispute between the parties shall be filed and heard in a court of competent jurisdiction in the County of Santa Barbara.

19. Additional Provisions

Consultant agrees that no regular employee of District shall be employed by its firm during the period that this Agreement is in effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

NIPOMO COMMUNITY SERVICES DISTRICT

By: _____
Craig Armstrong
President, Board of Directors

ACCOUNTING FIRM NAME

By: _____
_____, CPA

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS ^{HK}
GENERAL MANAGER

FROM: LISA BOGNUDA ^{LSB}
FINANCE DIRECTOR

DATE: FEBRUARY 5, 2016

AGENDA ITEM

4

FEBRUARY 9, 2016

REVIEW CASH RESERVE POLICY

ITEM

Reserve Cash Reserve Policy

BACKGROUND

Town Sewer Fund #130

Pursuant to the Cash Reserve Policy for the Town Sewer Fund #130:

"After the adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may approve a transfer of the excess to the Funded Replacement Town Sewer fund #810."

At the October 14, 2015, Board Meeting, the Board of Directors reviewed the cash reserves for the Enterprise Funds (see Staff Report Attached). It was determined that the Town Sewer Fund did meet the cash reserve goal; however, the Board of Directors postponed approving a transfer until after the adoption of the Town Sewer Rates in November. Based upon the October 14, 2015, report to the Board, a transfer from Town Sewer Fund #130 to Funded Replacement for the Town Sewer of \$430,000 may now be recommended to the Board of Directors.

Town Rate Stabilization Fund #135

Pursuant to the Cash Reserve Policy for Town Sewer Rate Stabilization fund #135:

"To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below costs of service)."

The minimum reserve requirement for the Town Sewer is \$300,000 which was established during the issuance of the 2012 Certificates of Participation. It has been determined that a rate stabilization fund is required; however, the balance maintained in the fund is determined by the Board of Directors.

The Finance and Audit Committee may recommend to the Board of Directors a modification to the policy by considering the following points:

- 98% of the Town Sewer revenue is from fixed charges
- It is unlikely that the enterprise fund would experience an unexpected decrease in revenues as stated in the policy
- Current rate covenants are in compliance
- Five year sewer rates adopted

RECOMMENDATION

It is recommended that the Committee review the cash reserve policy and provide direction to Staff.

ATTACHMENT

- A. Cash reserve policy
- B. Item E-4, October 14, 2015, Annual Review of Cash Reserves in Accordance with Reserve Policy

February 9, 2016

ITEM 4

ATTACHMENT A

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2016-XXXX**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO
COMMUNITY SERVICES DISTRICT AMENDING THE CASH RESERVE
POLICY FOR THE DISTRICT**

**NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT "A"**

PURPOSE

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Nipomo Community Services District (District) will strive at all times to have sufficient funding available to meet its operating, capital and debt service obligations as well as to protect its creditworthiness. The District is committed to maintaining a financial structure that provides adequate and predictable revenues at the lowest possible cost to meet forecasted needs and operational objectives.

It should be noted that the District has a Debt Management Policy that establishes parameters for evaluating, issuing and managing the District's debt. The District's Debt Management Policy should be considered prior to committing to any new financial obligations.

The adequacy of the targeted cash reserve year-end balance ranges and/or annual contributions to each fund will be reviewed annually during the budgeting process or when a major change in conditions threatens the reserve levels established within this policy.

OPERATING FUNDS

WATER FUND (FUND #125)

Purpose: To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing water services. (Funded from rates and charges)

Target Criteria: To meet the District's cash flow needs and unbudgeted expenses, the Water Fund cash reserves should be equal to or greater than twelve months (360 days) of annual budgeted operating expenses (not including Funded Replacement).

After adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may approve a transfer of the excess to the Funded Replacement Water Fund #805.

TOWN SEWER FUND (FUND #130)

Purpose: To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing waste water services. (Funded from rates and charges)

Target Criteria: To meet the District's cash flow needs and unbudgeted expenses, the Town Sewer Fund cash reserves should be equal to or greater than six months (180 days) of annual budgeted operating expenses (not including Funded Replacement).

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT "A"

After adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may Approve a transfer of the excess to the Funded Replacement Town Sewer Fund #810.

BLACKLAKE SEWER FUND (FUND #150)

Purpose: To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing waste water services. (Funded from rates and charges)

Target Criteria: To meet the District's cash flow needs and unbudgeted expenses, the Blacklake Sewer Fund cash reserves should be equal to or greater than six months (180 days) of annual budgeted operating expenses (not including Funded Replacement).

After adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may approve a transfer of the excess to the Funded Replacement Blacklake Sewer Fund #830.

WATER RATE STABILIZATION FUND (FUND #128)

Purpose: To serve as a buffer to water rates during any period where there are unexpected increases in operating costs or decreases in revenues. In addition, in a severe drought or extremely wet conditions, it is reasonable to expect that water sales could fluctuate significantly. As such, this fund will absorb these types of fluctuations in operations and help stabilize rates and enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of \$400,000.

TOWN SEWER RATE STABILIZATION FUND (FUND #135)

Purpose: To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of \$300,000 set by Bond Indenture Agreement for the Revenue of Certificates of Participation Series 2012.

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT"A"

BLACKLAKE SEWER RATE STABILIZATION FUND (FUND #155)

Purpose: To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of ~~\$50,000.~~

BLACKLAKE STREET LIGHTING (FUND #200)

Purpose: To ensure sufficient cash resources are available to fund administration, operations and maintenance of providing street lighting services for Blacklake Village. (Funded by annual assessment to property owners in Blacklake Village)

Target Criteria: Minimum reserve requirement of \$30,000.

LANDSCAPE MAINTENANCE DISTRICT (FUND #250)

Purpose: To ensure sufficient cash resources are available to fund administration, operations and maintenance of providing landscape maintenance to the property owners of Tract 2409. (Funded by annual assessment to property owners in Tract 2409 aka Vista Verde Estates)

Target Criteria: Minimum reserve requirement of \$20,000.

SOLID WASTE (FUND #300)

Purpose: To ensure sufficient cash resources are available to fund solid waste programs, rate stabilization and to cover operating costs in the event that the District may find itself operating solid waste collection, disposal and recycling functions should its business partner now franchised to do these functions be unable to continue to provide these services due to an unforeseen event. This reserve provides assurance that solid waste services remain uninterrupted during an extended disruption to service provider. (Funded by Franchise Fees)

Target Criteria: Minimum reserve requirement of \$115,000.

DRAINAGE (FUND #400)

Purpose: To ensure sufficient cash resources are available to operate and maintain the Nipomo Drainage Maintenance District 76-02 (storm water conveyance system and basin serving Folkert Oaks Mobile Home Park and adjacent properties on Juniper Street). (Funded by a 1% ad valorem property tax rate)

Target Criteria: Minimum reserve requirement of \$50,000.

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT"A"

FUNDED REPLACEMENT- WATER (FUND #805)

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, ~~such as a bond issuance~~. This fund will also help normalize the impact of the capital asset replacements on future water rates. (Funded by water rates and charges and interest earnings)

Target Criteria: Based on 2007 or current Replacement Study

FUNDED REPLACEMENT- TOWN SEWER (FUND #810)

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, ~~such as a bond issuance~~. This fund will also help normalize the impact of the capital asset replacements on future town sewer rates. (Funded by Town sewer rates and charges and interest earnings)

Target Criteria: Based on 2007 or current Replacement Study.

FUNDED REPLACEMENT- BLACKLAKE SEWER (FUND #830)

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, ~~such as a bond issuance~~. This fund will also help normalize the impact of the capital asset replacements on future Blacklake sewer rates. (Funded by Blacklake sewer rates and charges and interest earnings)

Target Criteria: Based on 2007 or current Replacement Study.

NON-OPERATING FUNDS

SUPPLEMENTAL WATER FUND (#500)

Purpose: The revenue generated from the Supplemental Water Capacity Charge accumulates in this fund and its use is restricted to projects, programs and expenditures that reduce the District's reliance on groundwater as its sole water supply. (Funded by development capacity charges and interest earnings)

Target Criteria: No minimum target is maintained.

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT"A"

PROPERTY TAX (FUND #600)

Purpose: District's share of the 1% ad valorem tax on real property collected by the County of San Luis Obispo and distributed to the District pursuant to Article XIII A of the California Constitution. (Funded by property taxes and interest earnings)

Target Criteria: No minimum target is maintained, however, the annual property tax revenue stream is pledged to pay the annual debt service for the-2013 Certificates of Participation and the 2013 Refunding Revenue Bonds.

WATER CAPACITY CHARGES (FUND #700)

Purpose: The revenue generated from the Water Capacity Charge accumulates in this fund and is used to offset new development related capital improvements as outlined by the District's Capital Improvement Plan. (Funded by development capacity charges and interest)

Target Criteria: No minimum target is maintained.

TOWN SEWER CAPACITY CHARGES (FUND #710)

Purpose: The revenue generated from the Town Capacity Charge accumulates in this fund and is used to offset new development related capital improvements as outlined by the District's Capital Improvement Plan. (Funded by development capacity charges and interest earnings)

Target Criteria: No minimum target is maintained.

SINKING FUND- TOWN SEWER (FUND #880)

Purpose: The reserves may be used to pay annual debt service payments for the Revenue Certificates of Participation (Southland Wastewater Project) Series 2012. (Funded by Town sewer rates and charges in years 2008- 2012 in anticipation of the Southland Wastewater Treatment Facility Upgrade)

Target Criteria: No minimum target is maintained. Once the reserves in this fund are depleted, the fund will be terminated.

February 9, 2016

ITEM 4

ATTACHMENT B

TO: BOARD OF DIRECTORS
REVIEWED: MICHAEL S. LEBRUN *MSL*
GENERAL MANAGER
FROM: LISA BOGNUDA
FINANCE DIRECTOR
DATE: OCTOBER 9, 2015

**AGENDA ITEM
E-4
OCTOBER 14, 2015**

**ANNUAL REVIEW OF CASH RESERVES IN ACCORDANCE WITH
RESERVE POLICY**

ITEM

Annual review of Cash Reserves in accordance with Cash Reserve Policy [RECOMMEND RECEIVE REPORT]

BACKGROUND

On December 12, 2012, the Board of Directors adopted Resolution 2012-1285, *A Resolution Approving the Adoption of the Cash Reserve Policy for the District*. On September 24, 2014, the Board of Directors adopted Resolution 2014-1357 Amending Cash Reserve Policy (attached).

For Funds #125, #130 and #150, the policy states, "After the adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirements based on the cash reserve balance of the fiscal year just completed, the Directors may approve a transfer of the excess to Funded Replacement."

A summary of cash reserve balances for Funds #125, #130 and #150 and transfer recommendations for the funds addressed by the policy is attached for your review.

If the Board wishes to review any other fund balances, it is recommended the Finance and Audit Committee be directed to do so.

FISCAL IMPACT

None

STRATEGIC PLAN

Strategic Plan Goal 4 – Maintain conservative, long-term financial management to minimize rate impacts on customers while meeting program financial needs.

RECOMMENDATION

Staff recommends the Board of Directors by motion and roll call vote make the following findings and direction:

1. Cash Reserve Goals have not been met for Fund 125.
2. Postpone consideration of transfer from Fund #130 until after the Town Sewer rate hearing.
3. Transfer \$35,000 from Blacklake Sewer Fund 150 to Funded Replacement-Blacklake Sewer-Fund 830.

ATTACHMENTS

- A. FY 15-16 Annual Cash Reserve Policy Review
- B. Cash Reserve Policy

NIPOMO COMMUNITY SERVICES DISTRICT

CASH RESERVE POLICY REVIEW

FY 14-15

(A) FUND NAME	(B) FUND NUMBER	(C) CASH RESERVE FORMULA	(D) ADOPTED OPERATING BUDGET 2015-2016	(E) CASH RESERVE GOAL (C) * (D)	(F) CASH BALANCE AS OF 6/30/15	TRANSFER TO FUNDED REPLACEMENT RECOMMENDED?
Water Fund	125	360 days (12 months or 100%) of operating expenses	\$3,081,328 (Total Operating Expenses Less Funded Replacement)	\$3,081,328	\$1,570,886	No (1)
Town Sewer Fund	130	180 days (6 months or 50%) of operating expenses	\$1,222,943	\$611,472	\$1,042,292	No (2)
Blacklake Sewer Fund	150	180 days (6 months or 50%) of operating expenses	\$352,441	\$176,221	\$211,211	Yes (3)

(1) Water Fund

The reserve goal has not been met.

(2) Town Sewer Fund

The District is currently in the process of a Prop 218 Town Sewer Rate Increase. It is recommended that the Board postpone consideration of a transfer until after the rate hearing.

(3) Blacklake Sewer Fund

A transfer to Funded Replacement of \$35,000 is recommended.