



**NapaSan**

Collection • Treatment • Recovery • Reuse

**~~NAPA SANITATION DISTRICT~~**

## **FINANCIAL POLICIES**

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Approved by the Board of Directors

February 1, 2017 ~~May 2, 2012~~

# **NAPA SANITATION DISTRICT FINANCIAL POLICIES**

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# **NAPA SANITATION DISTRICT FINANCIAL POLICIES**

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## **1.0 GENERAL POLICIES**

### **1.1 Review annually**

Napa Sanitation District's financial policies shall be reviewed annually by the Board and shall be published in the adopted budget.

### **1.2 Comply with applicable laws**

The District shall comply with all applicable state and federal laws and regulations concerning financial management and reporting, budgeting, investing and debt administration.

### **1.3 Administrative procedures**

The Chief Financial Officer shall establish and maintain appropriate financial and internal control procedures to assure the integrity of the District's finances.

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## **2.0 RESERVE POLICIES**

### **2.1 Reviewed annually**

Napa Sanitation District shall maintain reserves that are appropriate to the needs of the District. Targeted reserve levels shall be established and reviewed annually as part of the budget process. The use of fund balance or reserves for operational activities shall be explained in the annual budget document; such explanation shall describe the circumstances for such action and its expected future impact.

### **2.2 Operating reserves**

Napa Sanitation District shall maintain an operating reserve for use during operational or financial emergencies. Emergencies shall constitute significant, unforeseen events that have a dramatic and immediate impact on the operations, assets or financial condition of the District. A plan to replenish this reserve used during a fiscal year shall be developed and approved through the budgeting process in the following fiscal year. The amount of the reserve shall be at least equal to 15% of the budgeted annual operating expenses, excluding debt service, in the General Operations and Maintenance Fund.

### **2.3 Liquidity**

Napa Sanitation District shall maintain cash and investments necessary to meet the liquidity needs for the District. Furthermore, the District shall maintain unrestricted cash and investments as required by any debt covenants.

Liquidity needs shall be calculated as follows: on June 30th of each year the District shall maintain a level of cash and investments, less those amounts held in reserve by a fiscal agent, in an amount at least equal to anticipated operating expenditures between July 1 and November 30, plus the amount held in Operating Reserve.

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## **3.0 REVENUE**

### **3.1 Fees and Charges**

#### **3.1.1 Setting of Fee and Charge Amounts**

Fees and charges shall be set to recover the current operational needs of the District, including the financing of capital improvements in accordance with the Capital Improvement Program.

#### **3.1.2 Collection of Fees and Charges**

The District shall strive to collect all fees and charges imposed, and shall actively pursue and settle delinquent accounts.

#### **3.1.3 Review of Fees**

The District shall review fees and charges annually to ensure they are set at appropriate amounts.

### **3.2 Revenue Forecasting**

The District shall estimate revenues conservatively, through an objective, analytical process. The District shall regularly report on forecasted vs. actual revenues, and provide explanation for significant variances.

### **3.3 Use of one-time and unpredictable revenues**

One-time revenues shall be used to support one-time expenditures or increase fund balance. Unpredictable revenues shall not be used to support ongoing operational expenses for a period longer than the revenue can reasonably be expected to support them.

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## 4. **BUDGETING AND CAPITAL ASSET MANAGEMENT**

### 4.1 **Basis of budgeting**

All budgetary procedures will conform to state regulations and generally accepted accounting principles. As such, the District shall use a modified accrual basis of accounting for reporting on budgeted versus actual expenditures, with the following exceptions:

- Grant revenues are budgeted on a modified cash basis rather than an accrual basis;
- Fixed assets are depreciated for some financial reporting, but are fully expensed in the year acquired for budgetary purposes;

### 4.2 **Balanced budget**

The District shall maintain a balanced budget, defined as total resources (operating revenue, non-operating revenue, intrafund transfers and beginning fund equity) shall equal total requirements (operating expenses, capital expenses, intrafund transfers and ending fund equity) including contingencies. Furthermore, the District considers the budget to be balanced whenever annual operating and non-operating revenues meet or exceed annual operational expenditures. The District is committed to maintaining a balanced budget under normal circumstances and will disclose deviations from a balanced operating budget when it occurs.

### 4.3 **Budget control**

The Board of Directors retains the exclusive authority to increase annual budget authority for Operational Expenditures. In no case may total operating expenditures exceed that which is appropriated by the Board without a budget amendment duly approved by the Board.

The Board of Directors also retains the exclusive authority to increase the annual budget authority for Capital Expenditures. In no case may total capital expenditures exceed that which is appropriated by the Board without a budget amendment duly approved by the Board.

Only the Board may authorize transfer of budget authority between Operational Expenditures and Capital Expenditures. Only the Board may increase the number of authorized positions in the Position Control Roster.

The General Manager has the authority to approve budget transfers between operating departments. The General Manager has the authority to approve budget



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transfers between capital projects. The General Manager has the authority to hire employees in accordance with the Position Control Roster.

The Director of Administrative Services / Chief Financial Officer shall be responsible for establishing a budgetary control system to ensure compliance with this policy.

## **4.4 Capital asset acquisition, maintenance, replacement and retirement**

### **4.4.1 Budget for maintenance**

The District shall budget for the adequate maintenance of capital equipment and facilities to protect the public investment and ensure achievement of their maximum useful life.

### **4.4.2 Use of operational fund balance for capital**

Operational fund balances in excess of established reserves and liquidity requirements shall be used for the development, rehabilitation or replacement of capital assets.

### **4.4.3 Capitalization threshold**

An asset shall be considered a capital asset when the initial cost of the asset is \$5,000 or more and has a useful life of more than one year. The initial cost shall include any costs necessary to put the asset into its intended use. Interest in real property shall always be considered a capital asset, regardless of its initial cost.

### **4.4.4 Ten-year Capital Improvement Plan**

The District shall prepare, adopt and update annually a ten-year Capital Improvement Plan that identifies and sets priorities for all major capital assets to be acquired, constructed or replaced by the District. The Capital Improvement Plan shall be included in the Adopted Budget. Major capital assets are those which result in a capitalized asset costing more than \$50,000. Capital assets costing less than \$50,000 may be combined into a single major capital project for Ten-year Capital Improvement Plan purposes, with the individual capital assets identified.

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### 4.4.5 Funding requirement

The Capital Improvement Plan shall identify adequate funding to support the acquisition, construction and replacement of assets identified in the plan, and shall identify projects that the District believes beneficial to the system but funding has not yet been identified. The Capital Improvement Plan shall include and indicate when and for what projects the District intends to finance through the issuance of debt. Additionally, the District shall strive to develop a comprehensive strategy and funding plan for the renewal and replacement of existing capital assets.

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## 5. DEBT ISSUANCE AND MANAGEMENT

### 5.1 Use of long-term debt

The District shall have a preference to finance capital improvements using pay-as-you-go financing and shall issue long-term debt only to finance capital improvements that cannot be readily financed from current revenues. Some exceptions to this may be made on a case-by-case basis for no-interest and extremely-low-interest loan programs for capital projects.

Debt financing shall be used only for major, non-recurring items or improvements with a minimum of five years of useful life; assets with a shorter useful life shall be financed using pay-as-you-go financing. The intended use of debt shall be described in and integrated into the District's Capital Improvement Plan and any long range financial forecasts.

### 5.2 Types of debt

The District, either on its own or through a public benefit corporation, may issue general obligation bonds, certificates of participation, revenue bonds, borrow from a bank, borrow from the State of California through the use of state revolving fund loans, borrow from the Federal Government, or issue any other long or short-term instrument approved by and deemed appropriate by the Board of Directors to meet the capital financing needs of the District. Debt may be fixed rate or variable rate.

### 5.3 Length of debt obligations

The District shall repay all debt issued within a period not to exceed the expected useful life of the improvements financed by the debt.

### 5.34 Debt service limitation

The District shall not issue debt where the debt service amounts exceed its ability to pay current obligations from current revenues. This shall be calculated as follows: current operating revenues, less current operating expenditures, shall be at least 125% of anticipated total annual debt service for all outstanding long-term debt.

### 5.45 Use of credit enhancements

When issuing long-term debt, credit enhancements (letters of credit, bond insurance, etc.) may be used, but only when net debt service on the debt is reduced

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by more than the cost of the enhancement, or the enhancement is a requirement for the loan or debt issuance.

## **5.56 Bond rating**

The District shall seek to maintain and, if possible, improve its current bond rating in order to minimize borrowing costs and preserve access to credit.

## **5.67 Financial disclosure**

The District shall fully disclose financial and pertinent credit information as it relates to the District's outstanding securities.

## **5.8 Internal controls**

To ensure debt proceeds are used as intended, the District shall implement internal control procedures that include at least the following:

- Debt proceeds shall be deposited in an account separate from other District accounts, with only revenues and expenditures directly associated with the debt proceeds included in the account.
- At least two approvals from different reviewers will be required on all expenditures of debt proceeds, to review and ensure the expenditure is appropriate to be paid from debt proceeds.
- District accounting staff shall prepare periodic reports on the use of debt proceeds for management review.

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## **6. INVESTMENTS**

### **6.1 Investment policy**

The District shall maintain the same investment policy as the County of Napa and shall invest its cash reserves in the County's investment pool.

### **6.2 Annual review**

The District shall review this policy annually and advise the Board when, in the professional opinion of the staff, it would be prudent to consider alternatives to investing its cash reserves.

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## **7. FINANCIAL REPORTING**

### **7.1 Quarterly financial reporting to Board of Directors**

The District shall prepare and provide to the Board of Directors a quarterly summary report that compares actual revenues and expenditures to budgeted amounts. The report shall explain significant variances and provide analysis and interpretation of financial information.

### **7.2 Monthly financial reporting to Board of Directors**

On a monthly basis, the Board of Directors shall be provided a financial report that includes budget-to-actual financial reporting and calculation of existing cash balances. The Board shall also receive regularly a report listing payments made to vendors during the reporting period.

### **7.3 Monthly management report review**

The District shall prepare a monthly report for review and use by District management staff that compares actual revenues and expenditures to budgeted amounts, as well as additional reports as requested to assist in managing the day-to-day operations of the District.

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## **8. ACCOUNTING**

### **8.1 Financial statements**

The District shall prepare financial statements annually, in accordance with generally accepted accounting principals for governments in the United States.

### **8.2 Annual financial audit**

The District's financial statements shall be audited annually by an independent, qualified third party in accordance with generally accepted auditing standards, and shall complete the audit within eight months of the end of the fiscal year. The audit results and any associated management response shall be presented to the Board of Directors.

### **8.3 Accounting policies and procedures**

Management shall develop internal accounting policies and procedures necessary to implement these Financial Policies and to ensure that internal controls, processes and procedures are adequate to protect the finances of the District.