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**BOARD FINANCE COMMITTEE MEETING  
WEDNESDAY APRIL 10, 2024, at 9:00 AM**

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## **AGENDA**

Public comments may be submitted via email to  
General Manager, Kat Wuelfing, at [kwuelfing@midpeninsulawater.org](mailto:kwuelfing@midpeninsulawater.org)

Please indicate in your email the agenda item to which your comment applies.

Comments submitted before the meeting will be provided to the Board before or during the meeting. Comments submitted after the meeting is called to order will be included in the correspondence that will be provided to the full Board.

Board members, staff, consultants, and the public may participate remotely.

The zoom meeting link is available here: <https://www.midpeninsulawater.org/zoom>

Should Zoom not be operational, please check online at: [www.midpeninsulawater.org](http://www.midpeninsulawater.org) for any updates or further instruction.

**1. Call to Order**

A. Roll Call

**2. Public Comment**

*If you wish to address the Committee, please follow the directions at the top of the agenda. If you have anything that you wish distributed to the Committee and included for the official record, please include it in your email. Comments that require a response may be deferred for staff reply.*

**3. Review DRAFT MPWD Financial Management Policy (FMP)**

**4. Adjournment**

This agenda was posted at the Mid-Peninsula Water District's office, 1075 Old County Road, in Belmont, California, and on its website at [www.midpeninsulawater.org](http://www.midpeninsulawater.org).

**ACCESSIBLE PUBLIC MEETINGS**

*Upon request, the Mid-Peninsula Water District will provide written agenda materials in appropriate alternative formats, or disability-related modification or accommodation (including auxiliary aids or services), to enable individuals with disabilities to participate in public meetings and provide comments at/related to public meetings. Please submit a request, including your name, phone number and/or email address, and a description of the modification, accommodation, auxiliary aid, service or alternative format requested. Requests should be sent to the General Manager at (650) 591-8941 or [kwuelfing@midpennsulawater.org](mailto:kwuelfing@midpennsulawater.org). Requests must be received at least two days before the meeting. Requests will be granted whenever possible and resolved in favor of accessibility.*



DATE: April 3, 2024

TO: MPWD Board Finance Committee

FROM: Tammy Rudock, Principal / Pakpour Consulting Group, Inc. (PCG)

RE: DRAFT MPWD Financial Management Policy (FMP)

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MEMORANDUM

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**BACKGROUND**

For the past ninety (90) days, PCG has worked closely with MPWD’s FMP project team, including Monique Madrid, Administrative Services Manager, project leader, and General Manager Kat Wuelfing.

A DRAFT FMP was created in 2021 shortly after Monique started working at the MPWD. She researched MPWD records for existing financial policies and gathered them together for a start of a policy document. The FMP is intended to be a comprehensive collection of those policies, updated for legal compliance and to match current MPWD practices, together with consideration of MPWD financial, accounting, and budget practices. Plus the project team solicited input from other public agency financial management policies and several finance, accounting, and management professionals.

*Board Finance Committee Review* – MPWD staff previously presented an outline of the DRAFT FMP to the Board Finance Committee (Kirk Wheeler and former Board member Dave Warden) on May 11, 2021. Staff secured committee acceptance on proposed updated purchasing limits within two (2) sections of the DRAFT FMP: Procurement and Credit Cards. The attached DRAFT FMP reflects that direction provided by the Board Finance Committee.

*Professional Review* – The project team is pleased to report that the following professionals were consulted for review of the DRAFT FMP and their feedback and input were valuable contributions to the MPWD’s FMP:

1. Dr. Peter Hughes, CPA, CIA, CFE – *From 2013 Report on Audit of MPWD Internal Controls*  
Chief Auditor / County of Orange
2. David Becker, CPA (Retired)  
James Marta & Company LLP

3. Al LaBossiere, CPA (Retired)  
Former MPWD Chief Financial Officer
4. Ben “Bud” Levine, Senior Advisor  
Wulff, Hansen & Company  
MPWD Municipal Advisor
5. Rick Wood, Finance & Administration Director  
California Special Districts Association  
(Former MPWD Chief Financial Officer)
6. Joubin Pakpour, PE  
Pakpour Consulting Group, Inc.  
MPWD District Engineer
7. James Ramsey, CPA, CFE  
Eide Bailly LLP  
MPWD CFO/District Treasurer
8. Julie Sherman, Attorney at Law  
Catherine Groves, Attorney at Law  
Liz Masson, Attorney at Law  
Hanson Bridgett LLP  
MPWD District Counsel

*FMP Manual Deliverable* – Once finalized and approved by the Board of Directors, PCG will work with MPWD consultant John Davidson, and the FMP will be formatted into a manual (like the MPWD’s Personnel policy). It should simplify the policy reference process and increase workplace efficiencies for staff, Board members, customers, and contractors/vendors by having all MPWD financial policies in one single document.

**OVERVIEW**

The FMP is divided into eleven (11) sections:

- Section 1 Purpose
- Section 2 Introduction
- Section 3 Internal Control Concepts
- Section 4 Organizational Structure and Financial Management Roles
- Section 5 Financial Policies
- Section 6 Budget
- Section 7 Procurement
- Section 8 Credit Cards and Lines of Credit
- Section 9 Travel and Employee Expense Reimbursement
- Section 10 Records Management
- Section 11 Financial Management Plan History

Short executive summaries of noteworthy policy sections follow herein below, and three (3) major policy considerations by the Board Finance Committee are presented at the end of this memo.

### Major Policy Documents

Many MPWD policy documents guide the management of the MPWD's financial and accounting activities and were consulted during the development and review of the FMP. The reference documents are summarized in Section 2.2 of the FMP.

### Internal Controls

The MPWD has detailed internal control procedures for finance and accounting activities, which were/are developed in collaboration among MPWD staff members and with other professionals and consultants. The FMP references several areas where internal controls are expected to be developed and maintained by staff.

### Financial Management Roles

MPWD's successful financial management, including the control environment, comes from the top of the organization, including the MPWD Board of Directors and Management.

### Financial Policies

This section of the FMP is the most detailed portion of the policy and governs the following significant financial and accounting activities:

- Section 5.1 Asset Protection and Fraud in the Workplace
- Section 5.2 Financial Recordkeeping and Asset Safeguarding
- Section 5.3 External Financial Reporting
- Section 5.4 Control Activities
- Section 5.5 Cash Management
- Section 5.6 Cash Reserves
- Section 5.7 Payroll and Related Liabilities
- Section 5.8 Capitalization Policy
- Section 5.9 Debt Management
- Section 5.10 Inventories
- Section 5.11 Investment of MPWD Funds

*Note: Three (3) major policy considerations for the Board Finance Committee were summarized by the project team and they are itemized and presented below for discussion with the committee.*

### Budget

The MPWD annual fiscal year budget administrative process was documented in Section 6.0. The detailed water rate structure is imbedded within Attachment A "Rates and Charges Schedule" to the MPWD Water Service Ordinance No. 103.

### Procurement

Section 7.0 outlines the procurement requirements for the MPWD. As noted, Section 54202 of the California Government Code requires all local agencies to adopt written policies and procedures, including bidding requirements for the purchase of equipment, services, and supplies.

The procurement requirements are the same as discussed with the Board Finance Committee back in May 2021. As information, the major differences between the existing 2005 MPWD Procurement Policy and the one within the attached FMP are the authorized purchasing authority limits without Board approval—

increased from \$25,000 to \$50,000. As previously reported to the committee, staff considered higher inflation and other economic factors when it recommended changes in purchasing authority limits, such as increased costs of services, materials, and supplies, between 2005 when the existing policy was approved and 2024 when the new FMP is being considered. Most recently:

- Most smaller water districts in the Bay Area and BAWSCA continue to use \$25,000 as their purchasing authority threshold.
- Alameda County Water District’s procurement policy authorizes \$100,000 purchasing authority limit for its General Manager.
- City of Belmont - \$75,000
- City of San Carlos - \$75,000

Credit Cards and Lines of Credit

The policy outlined in Section 8.0 reflects documentation of the current credit card and credit line practices at the MPWD, all of which have been previously reviewed and vetted with the Board of Directors when the MPWD shifted its credit card business away from Wells Fargo. Per FMP Section 8.0(N):

- The MPWD credit card account is authorized for a total of \$150,000.
  - The General Manager’s card limit is \$50,000.
  - The Operations Manager’s and Administrative Services Manager’s card limit is \$25,000.
  - Any card issued to a supervisor will have a limit of \$10,000.
  - Additional cards issued to employees will be at the sole discretion of the General Manager and will not exceed a limit of \$5,000.

**MAJOR POLICY CONSIDERATIONS FOR THE BOARD FINANCE COMMITTEE**

1. Section 5.5(B) – Checks and Check Signing Requirements

- Checks in the amount of \$100,000 and greater:  
Two (2) handwritten signatures, one of which shall be the General Manager’s or a Board member.
- Checks in the amount of \$25,001-\$99,999:  
One (1) handwritten signature, which shall be the General Manager’s, and/or one (1) authorized computer-generated electronic signature.
- Checks in the amount of \$25,000 and less:  
Two (2) authorized computer-generated electronic signatures and/or wet signatures.
- The General Manager has the authority to authorize Management employee signatories.

2. Section 5.6 – Cash Reserves

**PROPOSED - MID-PENINSULA WATER DISTRICT CASH RESERVES SUMMARY**

<i>RESERVE</i>	<i>FUNDING RANK</i>	<i>MAXIMUM TARGET LEVEL</i>
Working Capital (Operating) Reserve	1	50% of Annual Fiscal Year Budgeted Expenditures
Capital Reserve	2	\$8,000,000
Internal Revenue Code Section 115 Irrevocable Exclusive Benefit Trust Plan for OPEB and Pension Liabilities	3	100% of the District’s projected total OPEB liability, plus 5% contingency; <b>AND</b> 100% of the District’s projected pension liability, plus 5% contingency
Debt Service Rate Stabilization Fund Reserve	4	\$1,200,000

**EXISTING - MID-PENINSULA WATER DISTRICT CASH RESERVE POLICY SUMMARY**

<i>RESERVE</i>	<i>FUNDING RANK</i>	<i>MAXIMUM TARGET LEVEL</i>
Working Capital Reserve	1	\$1,500,000
Capital Reserve	2	\$1,500,000

3. MPWD Resolution 2005-11 is attached and approved a Charitable Giving Policy for the District on December 11, 2005, which was NOT included in the DRAFT FMP. It should be discussed whether the Committee would support that being included in the FMP for Board consideration.



# FINANCIAL MANAGEMENT POLICY

April 3, 2024



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## **SECTION 1.0            PURPOSE**

The Mid-Peninsula Water District (“MPWD” or “District”) is governed by the provisions of the California Water Code (“Water Code”) Sections 30000-33901. This Financial Management Policy (“Policy”) will provide a comprehensive guide on the conduct of the MPWD’s financial affairs and is intended to provide an overview of the financial management, accounting, and internal control policies to ensure the MPWD’s compliance with prudent and financial management standards.

Its further purpose is to ensure that MPWD assets are safeguarded, that financial statements are in conformity with Generally Accepted Accounting Principles (GAAP), as established by the Governmental Accounting Standards Board (GASB), and that MPWD follows best practices to ensure finances are managed with responsible stewardship.

This Policy replaces and supersedes all financial management policies, revisions, and amendments previously adopted by the MPWD as follows:

- Resolution 2005-09: Procurement Policy
- Resolution 2005-11: Charitable Giving
- Resolution 2007-11: Statement of Investment Policy
- Resolution 2012-12: Investment of Monies in LAIF
- Resolution 2013-10A: Capitalization Policy
- Resolution 2013-02: Cash Reserve Policy
- Resolution 2018-05: Debt Management Policy

## **SECTION 2.0 INTRODUCTION**

This Policy sets forth financial management standards that require accurate, current, and complete disclosure of the results of MPWD's financial activities in compliance with the law. Accounting records will be maintained to identify the sources and uses of funds, which will include revenues, expenditures, debts and obligations, assets, deferred inflows and outflows of resources, and liabilities.

This Policy also documents some internal controls. Internal control procedures shall be maintained by staff, reviewed, and updated as a matter of routine and in compliance with GAAP and professional financial, accounting, and auditing recommendations. Effective control and accountability must be maintained for all cash, real and personal property, and other assets. Budgetary control will be maintained by the comparison of actual expenditures with budgeted amounts.

This Policy is divided into eleven (11) sections:

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## SECTION 2.1 DEFINITIONS

The terms referenced in this Policy shall have the meanings as defined below.

**Administrative Personnel** – District administrative employees are authorized by the General Manager to purchase miscellaneous items in support of District functions. Administrative personnel include the Administrative Services Manager, Chief Financial Officer, Administrative Supervisor, Accountant, Management Analyst, Administrative Specialist, and Administrative Assistant, and any other management or administrative position as authorized by the General Manager.

**Amendment** – A written change or addition to a legal document which, when properly executed, has the same legal validity as the original document.

**Board** – The Board of Directors of the Mid-Peninsula Water District.

**Capitalization** – The process by which a purchase is recorded as an asset in the accounting records, including constructed assets and intangible assets such as software development or subscription arrangements, right-to-use assets, licenses, and easements, that then becomes subject to depreciation or amortization over a determined useful life greater than one (1) year.

**Cash Reserves** – Cash savings necessary to demonstrate a commitment to future system capital investments, including replacement of assets, balance MPWD budgets during periods of fiscal constraint, including future debt service payment requirements, for emergency preparedness, and for a well-maintained infrastructure.

**Consultant** – An individual, firm or entity that provides or offers to provide independent professional services to the District.

**Contingency** – A predetermined amount or percentage of a contract held for changes in a public works construction project, or professional services agreement.

**Contract** – Written agreement authorizing a contractor, consultant, or vendor to provide materials or services, or public works, in accordance with the material requirements, conditions or scope of work stated in the contract.

**Cooperative Purchasing** – Participation with other agencies in cooperative purchasing arrangements and programs to leverage the cost benefits of volume purchases, delivery and supply chain advantages, best practices, and the reduction of administrative time and expenses.

**District** – Mid-Peninsula Water District.

**Emergency** – A situation in which circumstances or weather/natural events present an immediate risk of harm or hazard to the public health, safety, and welfare, or to District property, or threaten serious interruption of District operations.

**Employee** – Refers to any individual or group of individuals who receive compensation from the MPWD, either full- or part-time, including the members of the Board of Directors. The term also includes any volunteer who provides services to the MPWD through an authorized arrangement with the District.

**External Auditor** – Refers to independent audit professionals who perform annual audits of the District’s financial statements and are appointed by the District’s Board of Directors.

**Fraud** – Fraud and other similar irregularities include, but are not limited to:

- Claim for reimbursement of expenses that are not job-related or authorized by District Policy.
- 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.).
- Misappropriation of District assets (including but not limited to funds, securities, supplies, furniture, equipment, etc.).
- Inappropriate use of District resources (including but not limited to labor, time, and materials).
- Improprieties in the handling or reporting of money or financial transactions.
- Authorizing payment for goods not received or services not performed.
- Computer-related activity involving unauthorized alteration, destruction, forgery, or manipulation of data or misappropriation of District-owned software.
- Misrepresentation of information.
- Theft of equipment or goods.
- Any apparent violation of federal, state, or local laws related to dishonest activities or fraud.
- Seeking or accepting anything of material value (\$100 or greater retail value) from those doing business with the District including vendors, consultants, contractors, lessees, applicants, and grantees.
- Any other conduct, actions or activities treated as fraud or misappropriation under any federal or state law, rule, or regulation.

**GASB** – Governmental Accounting Standards Board.

**General Manager** – General Manager of the District or the person appointed by the Board to act in the capacity of the General Manager and authorized to administer this Policy on behalf of the MPWD.

**GFOA** – Government Finance Officers Association.

**Intact Deposits** – Collections that are deposited in the form and amount in which they are collected.

**Intact Mail** – Mail that it is unopened.

**Internal Control** – A process that is developed by staff MPWD to provide reasonable assurance the following categories of objectives will be achieved:

- Financial reporting will be reliable.
- Operations will be effective and efficient.
- Full compliance with applicable laws, regulations, and contracts.
- The benefits of the internal controls will not outweigh the costs.
- Assets of the District will be protected.
- Fundamental concepts:
  - ✓ Internal control is a process—a means to an end, not an end to itself.
  - ✓ Internal control is affected by people. It is not merely procedures and forms but involves people at every level of an organization.
  - ✓ Internal control can be expected to provide only reasonable assurance, not absolute assurance to the MPWD’s Board of Directors and Management.

**Invitation for Bids (IFB)** – A formal process for soliciting sealed bids from qualified prospective suppliers or public work contractors. It typically involves a formal bid opening and the awarding of a contract to a responsive and responsible supplier or contractor based on price, value, or other specified factors, and as otherwise required by law. It would also include bonds sold via a competitive bid process.

**Management** – District employees with the title of “Manager.” Also includes the position of Chief Financial Officer.

**Mid-Peninsula Water District** – MPWD or District.

**Multiple-Year Contract** – A contract for the purchase of services or materials, or for public works for a fiscal multiple-year term or that may contain provisions to extend performance by exercising optional renewal periods. A multiple-year contract does not obligate the District beyond the initial award period and shall not provide for a cancellation payment to the contractor if options are not exercised.

**Non-Discretionary Services** – Payments to utilities, license renewals for software and cloud-based services that support critical business services, temporary employment services, insurance providers, healthcare providers and national, state, or local agencies that relate to routine obligations and expenses essential to the District’s ability to provide service to customers and that have been approved in fiscal year operating or capital budgets.

**Non-Professional Services** – Services other than professional services, including materials, supplies, and maintenance services provided by a vendor.



**Procurement** – The policy set forth for the award of contracts and bidding requirements applicable to the types of contracts in which the District might engage.

**Professional Services** – Any type of special service or advice in financial, economic, accounting, engineering, technical, legal, human resources, or management/administrative matters by persons specially trained, experienced, and competent to perform the special services required (Government Code Section 53060). Such services include but are not limited to architectural, engineering, environmental, financial, land surveying, construction instruction or management, audits, training services, legal services, marketing, public relations, management advisory, human resources, preparation of planning or studies; technology application development; and personnel, job classification and benefit studies.

**Public Works** – As defined by California Public Contract Code Section 1101, a public works contract means an agreement for erection, construction, alteration, repair, or improvement of any public structure, building, road, or other public improvement of any kind. Pursuant to California Labor Code Section 1720, public works also means construction, alteration, demolition, installation, or repair work done under contract and paid for in whole or in part out of public funds, except work done directly by a public utility company pursuant to order of the Public Utilities Commission or other public authority. For purposes of this paragraph, “construction” includes work performed during the design, site assessment, feasibility study, and other preconstruction phases of construction, including, but not limited to, inspection and land surveying work, regardless of whether any further construction work is conducted, and work performed during the postconstruction phases of construction, including, but not limited to, all cleanup work at the jobsite. For purposes of this paragraph, “installation” includes, but is not limited to, the assembly and disassembly of freestanding and affixed modular office systems.

**Purchasing Card** – A form of charge card that allows materials and services to be purchased with a revolving line of credit. For example, the District might participate with Office Depot, Home Depot, and bank card programs. Employees will be authorized by the General Manager as they deem appropriate per internal control procedures.

**Request for Proposal (RFP)** – A solicitation used for the procurement of Professional Services and Non-Professional Services. Prospective suppliers or consultants submit requested information and are evaluated/awarded based on pre-established criteria.

**Request for Quotes (RFQ)** – A solicitation used for procurement of supplies, materials, or equipment. Prospective suppliers or consultants submit requested quotes and are evaluated/awarded based on pre-established criteria.

**Responsive Bidder** – A respondent that has made an unequivocal offer to provide materially and substantially the products or services sought by the District and has best complied with and responded to all bidding procedures.

**Responsible Bidder** – A bidder who demonstrates the attribute of trustworthiness, as well as quality, fitness, capacity, credit worthiness, and experience to satisfactorily perform the work.

**Single Source Purchase** – Procurement where a preferred or specific brand is available from only one source, and: 1) there is a compelling reason for only one source, a preferred brand, like material, etc., to be procured; or 2) the commodity is unique, including, but not limited to, acquisition of data processing, telecommunications and word processing equipment, goods and services; or 3) the purchase of a specific brand name, make or model is necessary to match existing District equipment or facilitate effective maintenance and support; or 4) when it is in the best interest of the District to extend or renew a contract from a previous contract period, based on satisfactory service, reasonable prices, avoidance of start-up costs, avoidance of interruptions to District business, or good business practices.

**Sole Source Purchase** – Procurement where only one viable source exists. This is usually due to legal restrictions of patent rights, a proprietary process, warranty issues, original equipment, copyrights, etc.

SECTION 2.2 SUMMARY OF MAJOR POLICY DOCUMENTS. The following MPWD policy documents, which may be amended or updated from time to time, also guide the management of the MPWD’s financial and accounting activities:

- 1929 incorporation of the MPWD
- Water Service Ordinance No. 103 (including all attachments and amendments)
- Resolution 2020-01 Termination of Residential Water Service
- Rules of the Board (Revised March 28, 2019)
- Comprehensive System Analysis and Capital Improvement Program (CIP) Summary (2019)
- Urban Water Management Plan (UWMP) and Water Shortage Contingency Plan (WSCP) 2020
- Water Capacity Charges Studies
- Water Rates Studies and Financial Plans
- Schedule of Miscellaneous Fees & Charges
- 2016 Certificates of Participation \$18,570,000 Financing Project 12/21/2016 (including the Official Statement and all related documents)
- Fiscal Year Operating and Capital Budgets
- Resolution 2023-03 Umpqua Bank Credit Cards
- Personnel Manual – March 28, 2019
- Letter Agreement between the MPWD and MPWD Employee Association dated March 23, 2023, and Side Letter between the MPWD and MPWD Employee Association dated June 30, 2023
- Monthly, Quarterly, and Annual Financial Reports
- Annual Comprehensive Financial Reports (ACFR)

- Public Agency Retirement System (PARS) Section 115 Trust (Other Post-Employment Benefits—OPEB and Pension Rate Stabilization Program—PRSP)
- Capital Improvement Programs

### **SECTION 3.0 INTERNAL CONTROL CONCEPTS**

In meeting the responsibility for faithful stewardship of the MPWD public assets and resources, one of the key tools available is appropriate internal controls.

The objective of internal control systems is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and to ensure that transactions are properly recorded in preparation of financial statements and reports in accordance with GAAP.

The three (3) most common types of internal controls are:

- A. Utilizing and documenting standard operating procedures;
- B. Formalizing approval authorizations; and
- C. Separation of duties.

Of these approaches, separation of duties is the most common internal control methodology by ensuring that the following functions should be separated among employees: 1) approval; 2) accounting/reconciling; and 3) asset custody.

Reasonable controls will reduce opportunities and temptations for misuse of MPWD assets.

#### **SECTION 3.1 OVERVIEW**

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission published “*Internal Control—Integrated Framework*” (the COSO Report) in 1992, which was amended in 2013. COSO is a joint initiative of five (5) private sector organizations, established in the United States, dedicated to providing thought leadership to executive management and governance entities on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting. COSO has established a common internal control model against which companies and organizations may assess their control systems. COSO is supported by five (5) supporting organizations, including the Institute of Management Accountants (IMA), the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), and Financial Executives International (FEI).

COSO established a common definition of internal controls, standards, and criteria against which companies and organizations can assess their control systems. Because this framework is widely accepted, it will be used as the basis for all internal control matters related to the MPWD.

## SECTION 3.2 COMPONENTS OF INTERNAL CONTROL

The COSO Report identified five (5) main components of internal control:

- A. Control Environment**—The foundation for all other components that sets the tone at the top. Accordingly, if the Board and Management view internal control as important, the rest of the organization will follow that same path. Control environment factors include integrity, ethical values, Management’s philosophy and leadership style, organizational structure, assignment of authority and responsibility, and human resource policies and procedures.
- B. Risk Assessment**—Risks that could impair the MPWD’s ability to achieve established objectives. Such objectives include, but are not limited to, utilizing resources in compliance with laws and regulations, and providing reliable and cost-efficient services.
- C. Control Activities**—Management’s specific priorities and procedures that help ensure that the risks related to achieving established objectives are addressed.
- D. Information and Communication**—Systems that should provide reliable reports for both internal and external purposes. The means of communicating information within the organization will significantly impact whether objectives are achieved.
- E. Monitoring**—Provides assurance that:
  - Policies and procedures are being followed;
  - Risks are being identified and appropriately addressed; and
  - Information is being accurately and timely communicated.

An adequate control structure will provide information that helps detect errors and fraud and provide reasonable assurance that financial reports are accurate. It will limit opportunities for theft or unauthorized use of assets, including cash, inventory, and capital assets. Developing an adequate Internal Control System requires continual analysis and modification to address changing circumstances.

## **SECTION 4.0 ORGANIZATIONAL STRUCTURE AND FINANCIAL MANAGEMENT ROLES**

The MPWD’s successful financial management, including the control environment, comes from the top of the organization, including the Board and Management. The Board is comprised of five (5) elected members responsible for establishing policy for and governance of the MPWD.

The Board and Management have identified organizational strategic elements and objectives that are relevant to MPWD’s financial management and operational control activities:

- Strategic Element No. 1: Employee Services – Maintain a workplace worthy of our employees and community.
- Strategic Element No. 2: External Relationships & Customer Service – Partners with our community. Leaders in our industry.
- Strategic Element No. 3: Resource Management & Resiliency – Dedicated stewards of our most essential natural resource.
- Strategic Element No. 4: Infrastructure Management & Operations – Maintain and invest judiciously in a reliable distribution system.
- Strategic Element No. 5: Financial Management – Honest and transparent stewardship of public funds.

Management will ensure that an Organization Chart is kept current and available for review.

#### SECTION 4.1 FINANCIAL MANAGEMENT ROLES

##### A. CONTROL ENVIRONMENT

Management implements policy and is comprised of the General Manager, Operations Manager, Chief Financial Officer, and the Administrative Services Manager. The General Manager is accountable for the overall operations of the MPWD, including financial and risk management, and sets the tone for internal controls. The Operations Manager is responsible for the day-to-day operational activities and financial matters related thereto. The Administrative Services Manager directs the activities of administration, accounting, billing/customer services, human resources and payroll, and Board Secretary functions, and is responsible for administrative and financial recordkeeping and reporting, and records management. As part of the MPWD's internal control procedures, a list of responsible personnel and their contact information will be maintained and updated annually.

The General Manager directs the following functions: Management of cash reserves, banking review and management, financial transactions, executive recordkeeping, operational efficiencies, and compliance with applicable regulations, District policies, ordinances, and resolutions. The General Manager may designate a manager to serve in their absence.

The organizational plan also calls for a centralized person and function for all financial transactions, which is the Administrative Services Manager.

The MPWD contracts outside independent professional financial auditors that are Certified Public Accountants (CPAs) for the annual financial audit, plus separate independent CPAs, if retained by the District, for professional accounting services to review/perform month-end-close review and adjustments. The District should seek input from its Municipal Advisor, if retained by the District, to review covenants on outstanding bond issues regarding compliance.

The control environment establishes an overall financial and accounting policy of separation of duties. No one person has control over a complete transaction from beginning to end. Work-flow is established to ensure that verification and monitoring occur routinely by another employee operating independently. Whenever possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures to prevent manipulation of records and minimize the possibility of errors, collusion, or fraud.

The control environment also includes a Board Finance Committee of three (3) members, two (2) of whom are assigned Board members and the third is the appointed District Treasurer. The Committee meetings are open to the public and

scheduled on an as-needed basis. The agenda is published on the MPWD website. Board members orally present summary reports of the Committee meetings at the next regularly scheduled Board meeting.

**B. FINANCIAL MANAGEMENT RISK ASSESSMENT**

Processes have been put into place by the MPWD to identify potential risks due to changing circumstances.

Technological changes, employee turnover, new programs, new accounting standards, new laws and regulations, economic growth and decline, and many other factors may impact the adequacy of MPWD’s internal control structure. Each change will present different risks that must be identified and adequately addressed.

In common terms, risk assessment is a way of determining what could go awry or amiss, and the cost to remedy the occurrence.

Throughout this policy, various control procedures, information and communication system designs as well as monitoring processes, are required because of potential risks.

Therefore, it is required that Management:

- Review all operations periodically and reassess risks; and
- Identify risks during the planning process for all new programs, projects, and activities.

**C. INFORMATION AND COMMUNICATION—ACCOUNTING BOOKS AND RECORDS**

MPWD is a single enterprise utility providing water distribution services. It keeps its books and records under the full accrual basis of accounting method and in accordance with the provisions of GAAP established by GASB. It produces its financial statements in accordance with GAAP for an enterprise fund using economic resources focus.

The internal control procedures should address MPWD’s financial structure and recordkeeping and serve as a set of standards. This policy document will provide the governance structure for management of the MPWD’s finances and foundation for the development of internal control procedures.

**SECTION 5.0 FINANCIAL POLICIES**

**SECTION 5.1 ASSET PROTECTION AND FRAUD IN THE WORKPLACE**

Acts that are considered fraudulent are defined hereinabove, and internal control procedures will be developed and maintained by the General Manager describing the steps to be taken when fraud, misappropriation, irregularity, or other dishonest activities are suspected, and providing procedures to follow in accounting for missing funds, restitution, and recoveries.

The MPWD is committed to protecting its assets against the risk of loss or misuse. Accordingly, it is the policy of the MPWD to promptly identify and investigate any possible fraudulent

activity, misappropriation, irregularity, or related dishonest activities against the MPWD and, when appropriate, to pursue available legal remedies. An objective and impartial investigation will be conducted regardless of the position, title, and length of service or relationship with the MPWD of any party that might be or become involved in or becomes the subject of such investigation.

For claims of fraud not involving the General Manager, the General Manager shall have primary responsibility for investigation of activity covered by this policy. For claims of fraud involving the General Manager, the President of the Board, the Board Finance Committee, or an external committee appointed by the Board President shall have primary responsibility for investigation of activity covered by this policy. The District Counsel shall advise the Committee, the General Manager, or the Board President on all such investigations.

Upon conclusion of the investigation, the results will be reported by the General Manager or, if the investigation involves the General Manager, the Board President, shall advise the Board.

Following review of investigation results, the General Manager or the Board President will take appropriate action regarding employee misconduct. Disciplinary action can include termination, referral of the case for criminal prosecution, or both.

The General Manager and the District 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.

All communications during the investigation will remain confidential. Only the General Manager or Board of Directors, depending upon the circumstances and direction by the Board of Directors, and upon advice of the District Counsel, may make public statements regarding the results of the investigation.

## SECTION 5.2 FINANCIAL RECORDKEEPING AND ASSET SAFEGUARDING

The framework of the financial portion of the internal control environment shall maintain:

- A complete Chart of Accounts in compliance with GAAP.
- A general ledger, cash receipts journal, and cash disbursement journal, a single water enterprise fund. The MPWD also receives a nominal amount of property tax revenue from San Mateo County.
- Subsidiary ledgers, such as an accounts receivable list, in support of the general ledger.
- Adequate supporting documentation of all accounting transactions, which includes pre-numbered receipts, outside invoices, billing stubs, and other supporting documentary evidence.
- Budget development and management for the MPWD operations and capital improvement program, including budget amendments as necessary.
- Complete minutes of actions taken by the Board of Directors, and approved by the Board of Directors, and maintained by the MPWD.

### SECTION 5.3 EXTERNAL FINANCIAL REPORTING

Management will:

- Assure that an audit contract is in place prior to the close of each fiscal year to ensure a timely audit.
- Conclude closing activities necessary to prepare financial reports as soon after the close of the fiscal year as is practicable.
- Ensure that audit reports should be issued annually and include a statement of net position, statement of revenues, expenses, and changes in net position, and a statement of cashflows and accompanying footnotes to such statements. These financial statements should be presented on a comparative basis for the prior two (2) years.
- Include a section devoted to the Management Discussion and Analysis, which provides additional information over and above the financial statements to the readers and users of such financial audit reports, including a calculation of compliance of bond covenants (debt service coverage and additional bonds test).
- Manage the proper care and retention of records, per the MPWD Records Retention Policy, which is essential to the strength of the internal controls of MPWD. Records can be maintained in electronic format or converted to electronic format, per MPWD policy. Electronic records must comply with applicable governing laws and MPWD's policies on records retention. The MPWD will maintain paper records as required by law.

### SECTION 5.4 CONTROL ACTIVITIES

A. Books and Records. The General Manager and/or their designee(s) shall periodically review, as established by this policy and internal control procedures, and as directed by the Board of Directors:

- The cash receipts journal, cash disbursements journal, general ledger, and subsidiary ledgers to ensure that they are in balance.
- Bank statements and the related reconciliations to determine that they are accurate, and all activity is authorized, and property recorded.
- Journal entries to determine that they are appropriate.
- The minutes of actions taken by the Board to determine that they are kept together and are complete and that actions taken are implemented.
- The reporting process and the current financial management system, to determine whether there is a need for an update, upgrade, or modification.
- The closed books and any related financial reports.

B. Financial Reporting. Management will ensure that:

- A financial audit will be conducted each fiscal year.
- The annual financial report is timely prepared and filed.
- Annual fiscal year Operating and Capital Improvement Program (CIP) Budgets are developed and managed. Budgets will be reviewed at mid-year or as needed for adjustments.
- Monthly budget status reports are prepared and presented to the Board.



- C. Computer System and Program Controls. Computers can improve performance, provide reporting methodologies to analyze operations, and transmit information through automation. To ensure that inputs and outputs are reliable, and data is secure:
- Controls will be put into place to ensure that only authorized individuals have access to electronic data and MPWD's computers and network. This includes passwords, access limitations, VPN (Virtual Private Network) access, and procedures to revoke authorization when employment ends. Such authorization will be determined by the General Manager or approved by the General Manager, depending upon the level of authorization necessary for the individual employee. Lists of authorized employees and their levels of authorization shall be reviewed annually and maintained by the General Manager or their designee.
  - Backups will be prepared of all data on a regular basis, securely stored off site, be redundant, and tested for reliability.
  - Financial software must:
    - ✓ Produce unalterable audit trails.
    - ✓ Generate a new receipt number when a transaction is voided (no reuse or renumbering of receipts should be permitted).
    - ✓ Controls must be in place to ensure network security.

## SECTION 5.5 CASH MANAGEMENT

### A. CASH

- Collections received in the MPWD office are deposited no less than twice per week (e.g., every Tuesday and Thursday). Except when a daily threshold of \$5,000 is reached or exceeded, which shall require a deposit on the date received.
- MPWD collections should be taken directly to the banking institution where the deposit will be made, and never be taken home by any MPWD employee or official, or anywhere else other than directly to be deposited.
- Collections must be deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason.
- Except cash required to conduct MPWD business, all cash maintained on hand and collections not yet deposited will be kept in a locked secure vault or safe. The vault or safe shall remain locked unless in use.
- Deposit slips are computer generated and are attached to the deposit and retained for reconciliation with the bank statement. All checks should be listed individually on the deposit slip or an attached list, itemizing the account number and/or name of the payer and the amount. The receipt numbers comprising the deposit are computer generated and duplicates are retained. Deposit reports are retained within the MPWD's Financial Management System.
- All money is disbursed through the Financial Management System and follows a numbering system developed and managed by the Administrative Services Manager.

ACH (Automated Clearing House) checks which are in electronic format receive an automated multi-digit number and are tracked.

- Petty cash is governed by Section 5.06 (C) below.

#### B. CHECKS AND CHECK SIGNING REQUIREMENTS

- All checks require two (2) authorized signatures. The General Manager and Operations Manager will be authorized Management signatories, and two (2) Board members will be authorized as signatories as needed, and as approved by the Board of Directors.
- Checks must never be signed in advance of their preparation and issuance.
- Checks must not be made payable to "Cash," or "Bank" if intended for cash.
- Authorized signature cards at the bank must be kept current. This duty will be managed by the General Manager or their designee.
- The bank should be notified immediately by the General Manager or their designee whenever an approved signer should be removed from signature authority.
- Prior to signing checks, each signatory should review the check and check stub, and payee, and the adequacy of the attached supporting documentation (such as vendor invoices, purchase authorizations, receipts, accounting codes, and employee's signature authority for approving the expenditure, etc.):
  - Checks in the amount of \$100,000 and greater:  
Two (2) handwritten signatures, one of which shall be the General Manager's or a Board member.
  - Checks in the amount of \$25,001-\$99,999:  
One (1) handwritten signature, which shall be the General Manager's, and/or one (1) authorized computer-generated electronic signature.
  - Checks in the amount of \$25,000 and less:  
Two (2) authorized computer-generated electronic signatures and/or wet signatures.
  - The General Manager has the authority to authorize Management employee signatories.
- MPWD uses online banking. MPWD will ensure the bank has a method in place that requires transactions to be authorized by two (2) individuals before they can be processed. The General Manager or their designee shall conduct a management review of check disbursements as processed, and sign and date as evidence of their review.
- Voided checks will be defaced and retained and reviewed quarterly and signed off on by the General Manager or their designee.
- The District will maintain a list of all accounts payable checks that are at least one (1) year old and have not been cashed. After three (3) years, unclaimed checks worth more than TWENTY-FIVE DOLLARS (\$25) must be published once a week, for two consecutive weeks, in a general circulation newspaper in the local area of Belmont. If a claim is not made within the specified period, the funds will become the property of the MPWD in accordance with California Government Code Sections 50050 through 50057.

- Bank Statements will be reconciled with the cash balances presented in the accounting records (General Ledger). Bank Statement reconciliations should be prepared within 45 days after the bank statements are received from the bank and submitted to the General Manager for review. The General Manager shall review the bank statement reconciliations within five (5) business days of receipt, and sign and date the reconciliation to evidence their review. This task should not be delegated by the General Manager.
- Canceled checks must be retained on file with the applicable bank statements for future reference and audit purposes and should not be filed with paid invoices or purchase authorizations.
- If canceled checks are not available from the bank and imaged statements are issued, MPWD should require the bank to include both front and back of each check and deposit slip and require that the images be of such quality and size that they are clearly legible. If the bank does not provide details for all pages, (back and front) of the deposit slips or checks, MPWD should download this information monthly.
- A cash balance in the amount of TWO HUNDRED DOLLARS (\$200) will be maintained in the MPWD Administrative office cash register for change-making purposes during customer payment transactions and should be replenished in accordance with internal control procedures established by the Administrative Services Manager.

#### C. PETTY CASH

- The petty cash account (as authorized by the Board) and checks are written to the petty cash custodian to establish the petty cash fund. The account consists of an authorized, fixed sum of money set aside as an asset for the purpose of making miscellaneous purchases and advances for employee emergency travel needs.
- MPWD keeps a balance of FOUR HUNDRED DOLLARS (\$400) in the petty cash fund, which should be evaluated annually. Any recommended change in balance must be presented to the Board.
- Petty cash disbursements are made only as needed to MPWD employees, and an invoice/receipt accompanied by a petty cash voucher, prepared in ink, showing the items purchased, and signed and dated by the person receiving the cash, is required in each case. The amount of cash on hand and petty cash vouchers and related invoices/receipts written must total to the originally authorized amount of the funds.
- When the available petty cash has been reduced to ONE HUNDRED DOLLARS (\$100), a check is written to replenish the cash. The check made payable to and given to the petty cash custodian to be cashed at the bank. The total amount reimbursed will be separated into amounts to be charged to each of the applicable expenditure accounts.
- Someone other than the person responsible for handling the petty cash fund inspects, approves, dates, initials, and marks each voucher, "PAID" to prevent reuse.
- The General Manager or their designee should enforce the following restrictions:
  - The petty cash fund should be maintained at the lowest amount possible and should be replenished only after the strictest scrutiny of all supporting documentation for the petty cash disbursements.

- Under NO condition should the petty cash fund be commingled with personal funds of an MPWD official or employee or used to cash personal checks or to make advances to employees.
- Under NO circumstances should the petty cash fund be commingled with the MPWD cash register for use with daily customer transactions.
- Since checks to replenish the petty cash fund are charged to the expense accounts represented by the petty cash vouchers, the only entries to the petty cash fund asset account would be to establish the fund, increase or decrease the fund, or to close the fund.
- Receipts for other miscellaneous services should be recorded and deposited like other revenue and not maintained as a petty cash fund or used for miscellaneous purposes.
- Access to the vault or safe, which contains cash and other important documents, will be limited to employees approved by the General Manager or their designee, and shall only be used for MPWD business purposes. A list of the authorized individuals will be maintained by the General Manager or their designee. The vault or safe shall remain locked when not in use.
- The General Manager or their designee not involved with petty cash should review the petty cash count, no less than quarterly.

D. REVENUES AND RECEIVABLES—*GENERAL*

- Responsibility for each step of cash handling and recording will be established through internal control procedures.
- Employees handling the cash should be different than the employees keeping the books and records.
- The payment date and amount are recorded for each individual account in the utility billing registry on a timely basis.
- The billing registers should be posted no more than three (3) working days after related collections and deposits.
- At the start of the business day, all mail will be picked up from the U.S. Post Office in Belmont and delivered intact to the MPWD office.
- All checks received in the MPWD office will be promptly stamped “FOR DEPOSIT ONLY.”
- Customers have the option of submitting payment to the MPWD via:
  - The MPWD lockbox at the address indicated on the utility bill.
  - Online bill payment is available at the MPWD website.
  - Automatic recurring payments are available at the MPWD website.
  - Automatic bill payment through the customer’s individual bank site.
  - Payment drop boxes are located at the Carlmont Shopping Center in Belmont.
  - A payment drop box is located at MPWD Administrative offices at 1075 Old County Road, Suite A, in Belmont.
  - In person at the MPWD Administrative offices.
- A reasonable fee, approved by the Board of Directors, and reflected within the MPWD Miscellaneous Fee Schedule, will be assessed to customers utilizing their credit/debit cards for payment of their MPWD utility bill.

- At the end of the two (2) business days designated for deposit each week (e.g., Tuesday and Thursday), or the date the threshold of daily collections equal \$5,000 or more, the cashier counts the cash and checks on hand, leaving only the predetermined amount for cash register change. The cash will be kept in a secure location in accordance with internal control procedures established by the General Manager or their designee.
- Each day the cashier will summarize all collections by source in a daily collection report, clearly indicating the amount to be deposited, the amount to be retained for change, and the amount of cash over or under. Each report will be dated, and the date be recorded on the corresponding deposit slip. The total on the corresponding deposit slip generated by the MPWD's Financial Management System, as well as the total of all applicable computer-generated receipts will agree with the total collection recorded on the collection report. The cashier will process the payments and produce the receipt numbers applicable to each collection source on the collection report, sign, and date the report.
- Collections are deposited two (2) days per week (e.g., Tuesday and Thursday), except when a threshold of collections equal to \$5,000 or more is reached, which shall require a deposit on that collection date.
- Collections will be deposited intact and only in designated depositories.
- Third-party checks will not be accepted for payment to MPWD. In addition, customers should not be given cash back if checks are written for more than the amount due. The customer's account will be given a credit in the amount of the excess payment.
- At the end of each day, all computer-generated receipts, billing stubs, and other evidence of collection are turned over to the designated posting staff member.
- All cash handling duties will be segregated as best possible.

E. REVENUES AND RECEIVABLES—*UTILITY BILLING OPERATIONS*

- MPWD reads meters monthly via an AMI (Automated Metering Infrastructure) system. The meter readings will be properly stored, uploaded to the billing system that is integrated with the MPWD Financial Management System, and processed for review by MPWD staff and billing. Tests will be conducted periodically to determine if all meters are being correctly read and equipment used in meter reading is functioning properly. Meter malfunctions will be immediately addressed within 48 hours of discovery.
- Zero-read reports will be generated each billing cycle, which reports no recorded reading for a customer's meter and should be investigated and resolved before billing.
- High/low reports will be generated each billing cycle, which compare meters with significant read disparities in a customer's account from a previous month to the current month, reviewed by MPWD Administrative staff, and resolved by the next billing cycle.
- Water charges and fees will be listed on utility invoices and governed by the rates and fees adopted by resolution by the Board of Directors and are subject to change when the MPWD determines there is a need for rate and fee adjustments to sustain District operations. Water rates and charges will be posted to the MPWD website as required by law.

- Each month the total number of hundred cubic feet of water (also known as a unit of water) sold and listed on the billing summary detail, will be compared with the total number of hundred cubic feet produced/purchased, including the number of hundred cubic feet estimated to be in storage, and known loss of water, to identify any unknown water loss (in transit). Significant unexplained fluctuations will be investigated within 48 hours of billing to ensure that users are billed for total consumption and that malfunctioning meters and leaks in lines and mains are located promptly and repaired.
- An internal control procedure will be developed by the Administrative Services Manager or their designee and maintained for high meter readings that might be the result of a water leak on the customer’s side of the meter. Documentation related to the investigation and communications between the MPWD, and the customer will be maintained in the customer’s billing account within the MPWD’s Financial Management System.
  - Charges disputed by customers will be investigated and all adjustments will be approved in accordance with the MPWD’s internal control procedure developed and maintained by staff, and by someone other than the staff member(s) handling receipt and payment records.  
*NOTE: Adjustments should not be approved by the employee who collects or posts the accounts as paid. As best feasible, for separation of duties, the employee who collects or posts should not have access to that portion of the computer system which allows adjustments.*
  - Documentation of each adjustment is required and retained. Adjustments to billings for meter reading and other errors should be recorded in the billing register.
  - A customer will be entitled to a billing adjustment once every five (5) years per service address, or as determined by the General Manager due to a customer’s extraordinary or exigent circumstances.
- Uncollectable accounts or bad debts are required under GASB to be accounted for using an Allowance for Doubtful Accounts methodology, in accordance with internal control procedures established by the General Manager or their designee. *De minimis* accounts receivable balances (less than TWENTY-FIVE DOLLARS [\$25] or less) will be written off by the District, thirty (30) days following the customer’s final bill is mailed, or thirty (30) days after the District’s final attempt at collection of an overdue amount.

F. REVENUES AND RECEIVABLES—LEASE AGREEMENTS AND CONTRACTS

All lease agreements and contracts shall be in writing. Internal control procedures exist regarding management and maintenance of lease agreements and contracts and will be reviewed annually by the General Manager or their designee.

1. Safeguarding of this source of revenue will occur through a schedule of the lease agreements and contracts showing:
  - Lessee or contracting party name and address
  - Lease or contract term, including start date and expiration date
  - Lease or contract payment/amount

- Reference of the actual contract with sufficient description of leased property or contracting services, materials, and supplies
  - Lease management or contract contact information
  - Insurance provider and term information
2. The lease agreement and contract files will contain the following:
- The most current and executed lease agreement or contract
  - A schedule of lease agreement or contract terms
  - Current certificate of insurance as required by the lease or contract
  - The General Manager or their designee will be responsible for preparing and maintaining the lease agreement and contract files
3. Leases will be invoiced in accordance with the agreements using monthly, semi-annual and/or annual invoicing. The General Manager or their designee will be responsible for proper tracking and prompt collection of these revenues.

#### SECTION 5.6 CASH RESERVES

Cash reserves are essential to ensuring fiscal responsibility, a key organizational goal of MPWD. Properly designed reserve policies send a positive signal to ratepayers, investors, and regulatory and credit rating agencies that MPWD is committed to maintaining the long-term fiscal strength of MPWD. Cash reserves are savings necessary to balance MPWD budgets during periods of fiscal constraint, allow for emergency preparedness, provide for a well-maintained infrastructure, and demonstrate a commitment to future system capital investments.

Strong and transparent financial policies, including maintaining prudent reserves for emergencies, rate stability, working capital, and capital improvements, are consistent with best practices in the utility industry. The reserve policy is designed to provide operating guidance for the management of MPWD finances.

#### A. CASH RESERVES AND SECTION 115 TRUST PLAN FOR OPEB AND PENSION LIABILITIES

MPWD will strive to maintain cash reserve and Section 115 Trust Plan targets as follows:

- Working Capital (Operating) Reserve with a maximum target level of 50% of the District's annual budgeted expenditures (GFOA best management practices standards) and ranked #1 for funding.
- Capital Reserve with a maximum target level of \$8.0 million as identified in the 2023 Annual Water Main Replacement Cost Analysis developed by the District Engineer, including pump stations and water storage tanks painting and maintenance, and ranked #2 for funding.
- MPWD Internal Revenue Code Section 115 Irrevocable Exclusive Benefit Trust Plan for Other Post Employment Benefits (OPEB) and the Pension Rate Stabilization Program Reserve with a maximum total target level of:
  - 100% of the District's projected Total OPEB Liability plus 5% contingency, based upon its most recent GASB 75 Actuarial Report; **AND**

- 100% of the District’s projected pension liability (Unfunded Accrued Liability) plus 5% contingency, based upon its most recent CalPERS Actuarial Report, and ranked #3 for funding. It would be considered annually by the Board for budget funding following actuarial updates during the annual auditing process.
- Debt Service Rate Stabilization Fund Reserve with a maximum target level equal to one (1) year of debt service requirement (\$1.2 million) on the MPWD’s 2016 Certificates of Participation Financing Program for capital improvements and ranked #4 for funding. It would be considered annually by the Board for budget funding.

**MID-PENINSULA WATER DISTRICT CASH RESERVES SUMMARY**

<i>RESERVE</i>	<i>FUNDING RANK</i>	<i>MAXIMUM TARGET LEVEL</i>
Working Capital (Operating) Reserve	1	50% of Annual Fiscal Year Budgeted Expenditures
Capital Reserve	2	\$8,000,000
Internal Revenue Code Section 115 Irrevocable Exclusive Benefit Trust Plan for OPEB and Pension Liabilities	3	100% of the District’s projected total OPEB liability, plus 5% contingency; <b>AND</b> 100% of the District’s projected pension liability, plus 5% contingency
Debt Service Rate Stabilization Fund Reserve	4	\$1,200,000

Replenishment of reserve and trust plan levels, and plans for meeting maximum target levels, will be recommended by the General Manager as part of the District’s annual budgeting process.

**B. WORKING CAPITAL (OPERATING) RESERVE**

The purpose of the Working Capital (Operating) Reserve is to ensure that the District will always have sufficient funding available to meet annual operating costs, including temporary cash flow deficiencies that might occur because of timing differences between the receipt of operational revenue and expenditure requirements and unexpected costs that might occur because of doing business. Adequate operating reserves provide financial flexibility in the event of unanticipated expenditures or revenue fluctuations.

- Target Level: Fifty percent (50%) of the District’s annual fiscal year Operating expenditures in accordance with GFOA best management practices.



- Use of Reserve: To pay outstanding operating expenditures prior to the receipt of anticipated operating revenues, or in circumstances resulting from short-term loss or shortage of revenues. The General Manager will notify the Board President prior to withdrawing and using the necessary funds and seek ratification of the expenditure at the next regular Board Meeting.

#### C. CAPITAL RESERVE

The purpose of the Capital Reserve is to ensure that the District can fund the repair, maintenance, or replacement of the water system's infrastructure assets, during normal operations and emergencies. The reserve level combined with the District's managed risk pooled insurance coverage should adequately protect the District and its customers in the event of a catastrophic loss.

- Target Level: \$8.0 million as identified in the District Engineer's 2023 Annual Water Main Replacement Cost Analysis, including pump stations and water storage tanks painting and maintenance,
- Use of Reserve: To fund annual capital improvement projects, and to cover unexpected losses experienced by the District because of a disaster or emergency incidents that might result in the normal course of doing business. Any reimbursement received by the District from insurance because of a submitted claim shall be deposited back into the reserve as replenishment for the loss. The General Manager will notify the Board President prior to withdrawing and using the necessary funds and seek ratification of the expenditure at the next regular Board Meeting.

#### D. SECTION 115 TRUST PLAN

The purpose of the Internal Revenue Code Section 115 Irrevocable Exclusive Benefit Trust Plan is to fund MPWD's OPEB (Other Post-Employment) and PRSP (Pension Rate Stabilization Program) Section 115 Trust Account, established to pre-fund post-employment healthcare and pension benefits for eligible retired employees, and to ensure that the District will have sufficient funding available to meet these obligations in the event of unanticipated operating expenditures or revenue fluctuations.

- Target Level:
  - 100% of the District's projected Total OPEB Liability plus 5% contingency, based upon its most recent GASB 75 Actuarial Report; **AND**
  - 100% of the District's projected pension liability (Unfunded Accrued Liability) plus 5% contingency, based upon its most recent CalPERS Actuarial Report.
- Use of Reserve: To pre-fund the MPWD's OPEB and UAL pension obligations. The General Manager will report to the Board of Directors when the costs are reimbursed for payment of the annual expenditures from the Section 115 Trust Plan to the MPWD Operating Budget at the next regular Board Meeting.

#### E. DEBT SERVICE RATE STABILIZATION FUND RESERVE

The purpose of the Debit Service Rate Stabilization Fund Reserve is to ensure that the District will always have sufficient funding available to meet its annual debt service payment as part of its operating costs. Adequate reserves for its debt service provides the MPWD

with financial flexibility in the event of unanticipated expenditures or revenue fluctuations, and avoids the potential for imposition of a water rate increase to cover the cost.

- Target Level: \$1.2 million.
- Use of Reserve: To pay outstanding debt service installment prior to the receipt of anticipated operating revenues, or in circumstances resulting from short-term loss or shortage of revenues. The General Manager will notify the Board President prior to withdrawing and using the necessary funds and seek ratification of the expenditure at the next regular Board Meeting.

#### F. OVERSIGHT AND REPORTING

Reserve levels will be monitored by staff during the fiscal year and reported to the Board of Directors in monthly financial reports.

To the extent that reserves exceed target levels, the Board of Directors has the flexibility to direct staff to utilize the available funds to:

- Pay for capital projects (reducing the need for future debt).
- Pay down liabilities (e.g., unfunded accrued pension obligations, or OPEB—Other Post-Employment Benefits).
- Pay down existing debt; and/or
- Fund other strategic objectives.

The cash reserve and trust plan policy will be reviewed at least every two (2) years to ensure conformance with the District’s strategic goals and objectives and updated as necessary in compliance with material changes in risk exposures, regulations, or standards.

#### SECTION 5.7 PAYROLL AND RELATED LIABILITIES

Internal controls should be developed and maintained to address the highest level of payroll detail and data from the payroll vendor/program to facilitate more meaningful management review and oversight.

- A. Accurate maintenance and centralized control of payroll records is essential, because of potential exposure to litigation and employee unrest, as well as complex accounting and reporting problems.
- B. Prospective employees are required to prepare and submit a signed and dated MPWD Employment Application form listing the experience, job qualifications, and references of the applicant.
- C. Each employee files a current Internal Revenue Service Form W-4 Withholding Certificate.
- D. Current payroll and contact information are maintained for each employee.

- E. A cumulative employee leave record will be maintained for each employee. The record should clearly show all leave of any type earned and taken for each pay period, all paid and unpaid absences, and the current leave balance.
- F. Each newly hired employee files current Employment Eligibility Verification Form I-9.
- G. Compensation of all MPWD employees and Board Members should not exceed the authorized amounts, and payment of such personnel, will comply with Internal Revenue Service Regulations and California Franchise Board and California Employment Development Department Regulations, which require withholding of applicable taxes.
- H. The MPWD will comply with all court-ordered withholding for such items as child support.

#### SECTION 5.8 CAPITALIZATION POLICY

This capitalization policy provides guidelines for whether a purchase will be capitalized as an asset and depreciated or expensed as an operating expenditure. This capitalization policy sets forth a dollar amount as a threshold to be used in determining which items will be recorded. Depreciation is a cost allocation method, wherein the cost of an asset is allocated over its useful life.

##### A. FIXED ASSETS:

Defined as real property, infrastructure, buildings, improvements other than buildings, machinery, equipment and vehicles, work in progress, right-to-use assets (leases and subscription-based information technology arrangements [SBITAs]), which are purchased for continued use in conducting business. These items, which have an individual cost of \$10,000 or more, and have a useful life of two (2) years or more, are considered fixed assets.

Compared with purchases made of similar items that individually cost less than \$10,000, however, the aggregate purchase is over \$10,000; this purchase is outside the capitalization policy. For example, the purchase of five (5) new computer setups at \$2,500 each, total purchase equals \$12,500, is outside the policy and expensed.

1. Real Property—The records of the District should reflect real property owned, its location, its acquisition date and cost (purchase price), and property records, including a title search and preliminary title opinion. These records should be maintained in compliance with the MPWD policies on records retention.
2. Infrastructure—A capital asset account for the cost of infrastructure should reflect the location of each infrastructure system, including water, wastewater or stormwater system, dam, roadway, tunnel, or lighting system.
3. Existing Infrastructure—A purchase that costs \$10,000 or more and either adds to the useful life of the asset repaired or increases its service capacity. The judgment of the MPWD General Manager, with advice of the Operations Manager and District

Engineer, or capital project lead staff, can be used to determine useful life extension or service capacity expansion.

- Purchase cost includes taxes, freight, and installation. Cost also includes the services of a licensed professional or professional employee cost needed to acquire and/or install. For example, if a generator part costs \$15,000 and the related acquisition and installation costs push the cost over \$25,000, it falls within this policy.
4. Buildings—A capital asset account for buildings should reflect the location of each building and the cost value (being the purchase or construction cost) and, if improvements are made to the building, the cost of such improvements would be included. If a building is acquired by gift, the account would reflect its appraised value at the time of acquisition.
  5. Improvement Other Than Buildings—A capital asset account should reflect the acquisition value of permanent improvements, other than buildings, which have been added to land. Examples of such improvements are fences, retaining walls, parking lots, and most landscaping. The improvements would be valued at the purchase or construction cost.
  6. Equipment—Tangible property of a permanent nature, other than land, buildings, and improvements, should be inventoried. Examples include machinery, trucks, cars, furniture, desks, safes, cabinets, etc. Equipment should be tagged or otherwise marked as being owned by the MPWD if the cost is at or above a set amount and equipment lists should be maintained. The value of such items should be carried in the inventory at the purchase cost.
  7. Work in Progress—The project is not at the point where it contributed a benefit to the MPWD and includes construction work that has not been completed in the current calendar year, and the asset has not been placed into service. The cost of the project should be carried as “work in progress.” When the project is completed, it will be placed on the inventory applicable to the assigned asset accounts.
    - A general rule is any expenditure associated with the project regardless of cost.
    - The exception to the general rule is a cost under ONE HUNDRED DOLLARS (\$100) per invoice. Examples would be sporadic printing, postage, or travel costs.
    - Any professional service fee or professional employee costs regardless of cost is included in the project cost.
    - Project lead staff determines the moment the project is operational.
  8. Right-to-Use Assets – Assets that the District have an exclusive right to use to conduct operations under a financing agreement that is greater than one (1) year and whereby the asset returns to the lessor at the conclusion of the lease or arrangement term. The value of the items will be based on the stream of payments discounted by the District’s implicit borrowing rate at the time of entering the agreement, as dictated by the appropriate GAAP principles.
  9. Fixed Assets Lists—shall be developed for each asset category and properly updated and maintained throughout the life of the asset. The General Manager, Administrative Services Manager, and Operations Manager will be responsible for

managing the asset lists from their respective areas of administrative, executive, and operational control.

B. TOTAL COST OF FIXED ASSETS: The total cost of the fixed asset includes purchase price, freight, sales tax, directly related professional fees, such as architectural and engineering costs, and installation. It will not include MPWD staff time and expense involved in the purchase and operation.

C. INVENTORY:

- All capital assets will be identified (tagged or marked) and recorded immediately following the purchase of such items.
- Vehicles and equipment should have the MPWD’s name or seal clearly displayed, as practicable.
- The asset records should include up-to-date purchase, depreciation, and disposal information.
- An annual physical inventory of parts, materials, and supplies is performed, documented, and reconciled to the property records.

D. DETERMINATION OF USEFUL LIFE: Establish useful lives of water systems for depreciation purposes. General guidelines for evaluating the useful lives of fixed assets of MPWD are as follows:

<u>Asset Account</u>	<u>Years</u>
▪ Building & Improvements	50
▪ Mains	50
▪ Pumps and Valves	50
▪ Utility Plant in service	50
▪ Office Furniture & Equipment	7
▪ Machinery & Equipment	7
▪ Computers	5
▪ Master Plan	5
▪ Purchased Software	5
▪ Telephone Systems	5
▪ Vehicles and Equipment	5
▪ Right-to-Use Assets	Duration of the Agreement

E. INSURANCE - All capital assets will be adequately insured. An analysis of risk exposure will allow for MPWD to adequately ensure purchases or improvements to absorb losses and structure their insurance purchases accordingly.

F. SYSTEM MAPS - Complete internal water system infrastructure maps will be maintained and updated regularly. The Operations Manager or their designee will be responsible for ensuring compliance. The General Manager will review periodically for compliance.

**SECTION 5.9 INVENTORIES**

Inventories provide safeguards against the potential for misuse of the MPWD's tools and equipment (e.g., office furniture, computers, electronic devices) and materials and supplies. If any MPWD tools and equipment, or materials or supplies are found to be missing during the inventory count, there should be a thorough review and/or investigation, in accordance with internal control procedures established by the General Manager or their designee. The inventory list should at a minimum include the following:

- A. A requirement to inspect and count each incoming material and supply delivery, with the receiver signing each invoice as received and accepted.
- B. Supply a request form authorized by the appropriate individual identifying the supplies needed, the project, date, and appropriate general ledger account code.
- C. A requirement that an inventory employee sign off on requested supplies, and receiving personnel sign a document stating receipt of such supplies.
- D. The inventory store person will provide a copy of all inventory withdrawals and additions to the accounting department for proper and prompt recording.
- E. A requirement that all materials and supplies should be stored in designated areas that are protected against unauthorized withdrawals and/or other potential losses.
- F. A requirement that all scrap materials that have a known salvage value are safeguarded until sold and that the proceeds from the sale of scrap are handled in the same manner as other cash receipts.
- G. A requirement that reasonable inventory levels are maintained based on usage and obsolescence.
- H. A requirement that a work order support usage and reduction of inventory balances. (e.g., utility pipe, meters, etc.)
- I. An annual inventory of District parts, materials, and supplies will be performed.
- J. Counts from the annual inventory will be provided to the Operations Manager and any differences should be investigated and reconciled within 48 hours.
- K. Inventory of blank check stock will be maintained under lock and key and managed by the Administrative Services Manager.

#### SECTION 5.10 DEBT MANAGEMENT

The MPWD funds its capital projects and meets other financing needs through a combination of current operating revenues, available reserves, outside funding (e.g., grants), and prudently issued debt. This policy documents the goals and guidelines of MPWD issuance and use of debt instruments.

Debt includes financing to raise working capital or capital expenditures by selling bonds, bills, certificates, or notes to individual and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise to repay principal and interest on the debt. To achieve optimal credit ratings and endorse prudent financial management, MPWD is committed to long-term capital and financial planning, and continual review of its financing structure to optimize the overall cost of debt.

MPWD may consult with its Municipal Advisor, if retained, to provide input regarding options and decisions to issue or refund existing debt.

The issuance of debt by MPWD to finance major capital projects or to refinance existing obligations will only occur after the transaction is evaluated to be fiscally prudent and responsible under the prevailing economic conditions. Prior approval by the Board of Directors (Board) is required for the issuance of new debt or for the refinancing of existing debt.

The purpose of this Debt Management Policy (Debt Policy) is to establish and maintain parameters for issuing debt and promote objectivity in the decision-making process.

MPWD will adhere to the following legal requirements for the issuance of public debt:

- State law, which authorizes the issuance of debt.
- Federal and state law, which govern the eligibility of the debt for tax-exempt status.
- Federal and state law, which govern the issuance of taxable debt.
- Federal and state law, which govern disclosure, sale, and trading of the debt, both before and after issuance; and
- Generally Accepted Accounting Principles (GAAP).

Prior to the issuance of debt, MPWD will consult with its Municipal Advisor and Bond Counsel to ensure MPWD is up to date on any new legal requirements regarding debt issuance.

This Debt Policy is intended to comply with Government Code Section 8855(i), effective January 1, 2017, and shall govern all debt issued by the MPWD. The MPWD hereby recognizes that a fiscally prudent debt policy is required to:

- Maintain MPWD's sound financial position.
- Ensure MPWD has the flexibility to respond to changes in future service priorities, revenues, and operating expenses.
- Protect MPWD's creditworthiness.
- Ensure that all debt is structured to protect current and future taxpayers, ratepayers, and constituents of MPWD.
- Ensure that MPWD's debt is consistent with the MPWD's planning goals and objectives and Capital Improvement Program (CIP) or capital budget, as applicable.

#### A. PURPOSE AND USE OF DEBT

Debt financing is an acceptable and appropriate approach to fund the MPWD's long term capital improvements as approved by the Board of Directors and, thus, ensure inter-generational equity of such major improvements among existing and future users of the system. Debt can be issued to fund the capital cost of planning, pre-design, design, land and/or easement acquisition, construction, and related fixtures, equipment, and others costs as permitted by law.

B. LONG-TERM DEBT. 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 MPWD. Long-term debt financings are appropriate:

- When a project to be financed is necessary to provide MPWD services.

- When the project to be financed will benefit constituents for 25+ years.
- When total long-term debt financing does not constitute an unreasonable burden to the MPWD and its taxpayers or ratepayers.
- 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, and/or eliminates or modifies cumbersome and inefficient covenants to the benefits of the MPWD and its rate payers.
- When 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 by more than 20%, unless specific conditions exist that would mitigate the extension of time to repay the debt and it would not cause the MPWD to violate any covenants to maintain the tax-exempt status of such debt, if applicable.

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

- The project to be financed must be approved by the Board of Directors.
- The MPWD estimates that sufficient revenues will be available to service the debt through its maturity.
- The MPWD determines that the issuance of the debt will comply with the applicable state and federal law.
- A debt service coverage ratio requirement of no less than 1.15.

Periodic reviews of outstanding long-term debt will be undertaken to identify refunding opportunities. Refinancing will be considered (within federal tax law constraints, if applicable) when there is a net economic benefit of the refunding. Refinancing that is non-economic may be undertaken to achieve MPWD objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile. Refinancing that produces a net present value savings of at least 3% of the refunded debt will be considered economically viable. Refinancing that produces a net present value savings of less than 3% or negative savings will be considered on a case-by-case basis and would be subject to Board approval.

D. SHORT-TERM DEBT. Short-term borrowing such as commercial paper and lines of credit will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and unless the Board determines that extraordinary circumstances exist, must not exceed seven years.

Short-term debt may also be issued to provide financing for the MPWD's operational cash flows to maintain a steady and even cash flow balance, due within one year, and may be



rolled over or extended if necessary. Short-term debt may also be used to finance short-lived capital projects, such as undertaking lease-purchase financing for equipment.

- E. **ALLOWABLE TYPES OF DEBT.** The MPWD may find that debt financing would be beneficial to further its public purposes and the Board of Directors may approve such debt without an amendment of this Debt Management Policy. Debt shall be issued as fixed rate debt, including Certificates of Participation, Revenue Bonds, and Leases. A variable rate issue should only be considered after careful consideration of risks and consultation with the MPWD's Municipal Advisor, and MPWD makes a specific determination as to why a variable rate issue would be beneficial to MPWD in a specific circumstance.
- F. **RELATIONSHIP OF DEBT TO CAPITAL IMPROVEMENT PROGRAM AND BUDGET.** MPWD is committed to long-term capital planning and may issue debt for the purposes stated in this Debt Management Policy for implementation of the MPWD's capital budget and CIP.
- G. **OTHER POLICY CONSIDERATIONS.** MPWD's Debt Management Policy, Cash Reserve Policy, and Investment Policy contained herein will be considered in the decision-making framework utilized in the preparation of the MPWD's CIP and long-term capital and financial planning, and its fiscal year budgeting process. Policy updates should be considered for adaptation to changes in the economy and market. The policy will be reviewed and considered by the Board of Directors every two (2) years.
- H. **EXCEPTION TO INCURRING DEBT.** MPWD will fund the upkeep and maintenance of its infrastructure and facilities improvements due to normal wear and tear through the expenditure of available operating revenues rather than incurring debt.
- I. **INTEGRATION OF DEBT.** The MPWD shall integrate its debt issuances with the goals of its CIP by timing the issuance of debt to ensure that projects are available when needed in furtherance of the MPWD's public purposes or may be less expensive due to construction costs or low interest rates.
- J. **DEBT ISSUANCE.** The MPWD is committed to long-term financial planning, maintaining appropriate reserves, and employing prudent practices in governance, management and budget administration, and systematic capital planning. The MPWD will issue debt for the purposes stated in this Debt Management Policy after consultation and input from its Municipal Advisor, if retained, and as approved by the Board of Directors to implement policy decisions incorporated in the MPWD's annual operations and capital budgets. Adoption of this Debt Management Policy will help ensure that debt is issued and managed in a manner that protects the public interest.
- K. **CREDIT RATING.** MPWD will do everything necessary to maintain targeted credit ratings for debt instruments. MPWD General Manager and designated staff, working with the District's Municipal Advisor, shall be responsible for determining which of the major rating agencies will be asked to provide such a rating.

L. **METHOD OF SALE.** Debt is typically issued under either a competitive or negotiated sale, or private placement. Determination of the appropriate method of sale will rest with the General Manager and the MPWD's Municipal Advisor. There are several market factors that will affect the success of a debt offering and each should be carefully considered before selecting a method of sale. These factors include but are not limited to; 1) market perception of the MPWD's credit quality, 2) interest rate volatility, 3) size of the proposed sale, term, and average life, 4) complexity of the proposed issue, 5) competition with other issuers for investor interest; and 6) economic and market conditions at the time.

M. **DEBT ADMINISTRATION.** The MPWD 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.

1. Applicable policies regarding initial bond disclosure continuing disclosure, post-issuance compliance, and investment of bond proceeds: Without limiting the foregoing, the MPWD will periodically review with its Municipal Advisor and Bond Counsel, if retained, the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings entered into by the MPWD in accordance with SEC Rule 15c2-12;
- Any federal tax compliance requirements, including, without limitation, arbitrage, and rebate compliance;
- The MPWD's investment policies as they relate to the use and investment of bond proceeds; and
- California Government Code Section 8855(i) and the annual reporting requirements therein.

2. Proceeds of debt will be held either by:

- A third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the MPWD upon the submission of one or more written requisitions by the General Manager of the MPWD (or their written designee); or
- The MPWD, to be held and accounted for in a separate 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 MPWD in records compliance with current accounting standards and subject to the MPWD's annual financial audit.

N. **INVESTMENT OF DEBT PROCEEDS.** Proceeds of debt will be invested until used for the intended project(s) to maximize utilization of the public funds. Investments will be made to obtain the highest level of safety. The General Manager will oversee the investment of bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issue, while complying with arbitrage and tax provisions.

- O. DEBT COVERAGE TARGET. In determining the affordability of a proposed debt financing, the MPWD will perform an analysis comparing projected annual net revenues, after payment of operating and maintenance expenditures, to estimate annual debt service and the estimated debt coverage ratio. The debt coverage ratio is the amount of net cash flow available, divided by the annual interest and principal payments on debt.

It is acknowledged that the MPWD's existing debt covenants for its 2016 Certificates of Participation capital debt financing required a legal debt coverage ratio of at least 1.3.

- P. DEBT SERVICE RESERVE. MPWD staff will monitor dedicated debt service reserve fund balances, ensuring compliance with related reserve requirements (if applicable), and periodically review the advisability of prepayment or refunding of related debt. The financial advantages of a current refunding must outweigh the cost of issuing the refunding debt by a sufficient margin to justify it. (The California Special Districts Association's best practices for debt management recommend at least 3.0% of the principal amount of the bonds being refunded, determined on a net present value basis).
- Q. CALL OPTIONS/REDEMPTION PROVISIONS. MPWD staff will evaluate and recommend to the Board the use of a call option, if any, and a call protection period for each issuance. A call option, or optional redemption provision, gives the MPWD the right to prepay or retire debt prior to its stated maturity. The option may permit the MPWD to achieve interest savings in the future through refunding the debt. The cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the call premium, time until the debt may be called at a premium or at par, and interest rate volatility.
- R. REPORTING. MPWD staff will provide regular review and reporting (at least quarterly), even if there is nothing to report, to the Board of the debt's financial performance, including capital expenditures and interest earnings.
- S. DEBT SERVICE PAYMENTS. Necessary appropriations for annual debt service requirements will be reflected in the MPWD's annual budget. The General Manager is responsible for timely annual payments.
- T. CONTINUING DISCLOSURE REQUIREMENTS. The MPWD is responsible for ensuring that the MPWD's annual financial statements, continuing disclosure reports, and material event notifications are posted on the MPWD website and/or the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board. The MPWD may also contract with third-party consultant(s) to comply with its continuing disclosure obligations, and with Securities and Exchange Commission Rule 15c2-12(b)(5). Failure to comply with disclosure requirements may restrict the ability of the MPWD to issue debt.

The MPWD shall submit an annual report to the California Debt and Investment Advisory Commission (CDIAC) for any issuance of debt for which it has submitted a report of final sale

on or after January 1, 2017. The annual report shall comply with the requirements of Government Code Section 8855 and related regulations. The MPWD may also contract with third-party consultant(s) to comply with its annual reporting to the CDIAC.

- U. INVESTOR RELATIONS. Information that the MPWD intends to make available to the investing public, including bondholders, rating analysts, investment advisors, or any other members of the investment community shall be filed on the MPWD website and the EMMA website.

The MPWD will consult with its Municipal Advisor, if retained, in any potential communications with the investment community.

- V. RECORDS RETENTION. A copy of all relevant documents and records will be maintained by the MPWD through the final maturity of the debt financing plus ten (10) years. Relevant documents and records will include sufficient documentation to support the requirements related to maintaining the tax-exempt status of the debt financing.

#### SECTION 5.11 INVESTMENT OF MPWD FUNDS

The Investment Policy provides guidelines for the prudent investment and cash management of MPWD's funds.

The management of MPWD's cash should be designed to adequately monitor and forecast accurately expenditures and revenues, thus enabling MPWD to fully invest available funds possible. MPWD's primary objective is to safeguard the principle of the funds; the second objective is to meet the liquidity needs of MPWD; and the third objective is to achieve a return on its invested funds.

MPWD may confer with its Municipal Advisor in its options for and management of investments.

#### A. STATEMENT OF INVESTMENT OF MPWD FUNDS

At all times, the MPWD shall invest its funds in accordance with the rules and restrictions established by the laws of the State of California (Government Code Section 53600 *et seq.*). In addition, the MPWD shall conduct its investments under the "prudent investor standard": when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, 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 MPWD. (California Government Code Section 53600.3).

As a best practice, the MPWD should engage with its financial advisors, as contracted, to review and consider sustainable green investments.

The MPWD's investment portfolio should include investments in the State of California Local Agency Investment Fund (LAIF) and may include investments in United States Treasuries (USTs). Any change in investments must be brought to the Board of Directors for consideration and approval. The General Manager shall serve as the MPWD's trustee for the purpose of placing investments pursuant to this policy.

The Board of Directors delegates on an annual basis the authority to invest to the General Manager of MPWD, or designee, who shall serve as MPWD's trustee for the purposes of placing investments pursuant to this Investment Policy. The Investment Policy must be reviewed annually by the Board of Directors at a public meeting. (California Government Code Sections 53646 and 53607).

1. Criteria for Selecting Investments. Criteria for selecting investments and the order of priority are as follows:
  - A. Safety. The safety and risk associated with an investment refer to the potential loss of principal, interest, or a combination of these amounts. MPWD shall operate only in investments that are considered very safe.
  - B. Liquidity. An adequate percentage of the portfolio, in the approximate amount of annual operating expenses, should be maintained in liquid short-term investments, which can be converted to cash, if necessary, to meet disbursement requirements. A short-term investment is defined as any investment which matures within a one-year period.
  - C. Return on Investments. Return on investments becomes a consideration, only after the basic requirements of safety and liquidity have been met.
2. Delivery of Securities. Securities shall be delivered by book entry, physical delivery or by third party custodial agreement (California Government Code Section 53601).
3. Diversification. Alternatively, and subject to prior Board approval, the investment portfolio may consist of a mix of the authorized types of investment instruments described in this Investment Policy. Generally, as a rule, long-term maturities should not represent a significant percentage of the total portfolio, as the principal risk involved can outweigh the potential for higher earnings.
4. Investment Record. Maintain a record listing the essential features of each investment, including the following:
  - A. Date of purchase
  - B. Description (or bank name) and identification number of each security
  - C. Interest rate
  - D. Original Cost
  - E. Maturity date of the investment
  - F. Date of and amount at termination (cashing) of investment and use of proceeds (reinvestment, deposit into MPWD bank accounts, etc.)

5. Terms of Investments. Except for public statutory exceptions or when authorized by the Board of Directors either specifically or as part of an investment program no less than three (3) months prior to the investment, no investment shall be made in a security with a term remaining to maturity more than five (5) years. (California Government Code Section 53601).
6. Deposit of Funds. As far as possible, all money belonging to or in the custody of the MPWD including money paid to the MPWD to pay the principal, interest, or penalties of bonds, shall be deposited for safekeeping in state or national banks, savings associations or federal associations, state or federal credit unions or federally insured industrial loan companies in California (as defined by California Government Code Section 53630). Pursuant to California Government Code Sections 53635, 53637 and 53638, the money shall be deposited in any authorized depository with the objective of realizing maximum return, consistent with prudent financial management.

Subject to the applicable statutory requirements, no more than 25% of the MPWD's total investment portfolio will be invested in a single security type or with a single financial institution. For purposes of this policy, the Local Agency Investment Fund is not considered a security type or financial institution.

7. Authorized Investments. MPWD may invest in the investment instruments authorized by the California Government Code, subject to any conditions set forth in the California Government Code. Authorized investments shall include, as set forth below, investments in the Local Agency Investment Fund and USTs. Subject to prior Board approval, the MPWD may also invest in the authorized investment instruments set forth hereinbelow.

- A. Local Agency Investment Fund (LAIF). The MPWD's current policy is to invest in the Local Agency Investment Fund pursuant to California Government Code Section 16429.1. Any change in that policy must be brought to the Board of Directors for approval.

Deposit and Withdrawal. The MPWD does hereby authorize the deposit and withdrawal of MPWD monies in the LAIF in the California State Treasury in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of Investment as stated therein, and verification by the State Treasurer's Office of all banking information provided in that regard; and designate the following officers or their successors in office to order the deposit or withdrawal of monies in the Local Agency Investment Fund: General Manager, Operations Manager, and Administrative Services Manager.

- B. United States Treasuries (USTs). MPWD's current policy is to invest in United States Treasury notes, bonds, bills, certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of

principal and interest pursuant to California Government Code Section 53601. Any change in that policy must be brought to the Board of Directors for approval.

C. Authorized Investment Instruments Subject to Board Approval. If the MPWD desires to change its policy of investing solely in the LAIF and USTs, it must obtain prior Board approval. With prior Board approval, the MPWD may utilize the following investment instruments:

- Negotiable certificates of deposits issued by a nationally or state-chartered bank, a savings association, or a federal association (as defined by California Financial Code Section 5102),
- a state or federal credit union, or
- a state-licensed branch of a foreign bank.

8. Prohibited Investments. The MPWD shall not invest any funds in inverse floaters, range notes or interest-only strips that are derived from a pool of mortgages. The MPWD shall not invest any funds in any security that could result in zero interest accrual if held to maturity; however, the MPWD may hold this prohibited instrument until its maturity date. The limitation does not apply to investments in shares of beneficial interest issued by diversified management companies as set forth in California Government Code Section 53601.6.

B. Authorization to Invest MPWD Funds in a Portfolio in the Public Agency Retirement Services (PARS) in combination with Other Post-Employment Benefits (OPEB), and a Pension Rate Stabilization Program (PRSP).

- PARS Public Agencies Post-Retirement Health Care Plan Trust Agreement. In 2011 the MPWD Board of Directors approved the participation in the PARS Public Agencies Post-Retirement Health Care Trust (Program) to fund post-employment benefits for its employees as specified in the MPWD's policies and or applicable collective bargaining agreements.
- The Program is a tax-exempt trust and plan performing an essential governmental function within the meaning of Section 115 of the Internal Revenue Code. The MPWD adopted the PARS Public Agencies Post-Retirement Health Care Plan Trust Agreement including the PARS Post-Retirement Health Care Plan, as part of the MPWD Retirement Program.
- In 2018 the MPWD Board of Directors authorized participation in the PARS Combination IRS Section 115 Trust Plan, including the MPWD's other Post-Employment Benefits Plan (OPEB) and established a Pension Rate Stabilization Program (PRSP) to pre-fund the MPWD's pension liabilities.

- Funds contributed to the PARS Combination IRS Section 115 Trust are not subject to investment restrictions applicable to investment of surplus funds under California Government Code Section 53600 *et seq.*
- Use of Funds. Funds deposited in this Program are to be used to pre-fund both pension obligations and/or OPEB obligations as specified in the MPWD’s plans, policies and/or applicable collective bargaining agreements.
- This Program was established to manage the pre-funding of pension obligations through the PRSP and its OPEB obligations in a single trust under this program which affords the MPWD administrative and cost efficiencies.
- Transfer of Funds. All transfer of funds from the Plan will be managed by the General Manager and will be reported to the Board of Directors at the next regular meeting.
- This program is intended to reflect prudent financial planning.

C. REPORTING. For the investments in LAIF, USTs, and PARS, the General Manager or their designee may render at least a quarterly report to the Board of Directors. If a report is filed, it shall be submitted within 45 days of the end of the quarter covered by the report. The report shall include the following information:

- Type of investment, issuer, date of maturity, par amount, dollar amount invested on all securities, investments and money held by MPWD;
- Description of any of MPWD's funds, investments or programs that are under the management of contracted parties, including lending programs;
- For all securities held by MPWD and under management by any outside party that is not a local agency or the LAIF, a current market value as of the date of the report and the source of this valuation;
- Statement that the portfolio complies with the Investment Policy or the manner in which the portfolio is not in compliance; and
- Statement that the MPWD can meet its cash flow requirements for the next six (6) months or provide an explanation as to why sufficient money should or may not be available. (California Government Code Section 53646[b-e]).

**SECTION 6.0 BUDGET**

**SECTION 6.1 BUDGET ADMINISTRATION**

**A. BUDGET PROCESS**

The budget process operates on a July 1<sup>st</sup> to June 30<sup>th</sup> fiscal year. Each fiscal year, two (2) budgets are developed, an Operating Budget and a Capital Budget.



The process begins in February or March annually for adoption no later than June.

The Operating Budget includes the revenues and expenditures for the day-to-day operations. The Capital Budget includes the capital infrastructure and system improvement projects and outlays projected for the fiscal year.

A mid-year budget review is typically scheduled each year. This process allows for an updated report on the previous 6-month operational and capital activities, and revenue collections and expenditures. Budget reviews can occur at other times throughout the fiscal year as needed or requested by the Board of Directors.

It is MPWD's desire to maintain a high level of transparency and user-friendly budget documents, including a line-by-line summary budget accounting for the MPWD revenue and expenditure account items. The capital budget includes the proposed projects and outlay items, as well as the funding sources for them. Budget documents are posted at the MPWD website.

#### B. CAPITAL IMPROVEMENTS

The MPWD developed a comprehensive system analysis in 2015 which was updated in FY 2016-2017, FY 2019-2020 and is currently undergoing an update in FY 2023-2024. The Board approved capital debt financing as an option to expedite deferred and much needed system infrastructure improvements. The secured debt financing totaling \$18,750,000 (2016 COP-Certificates of Participation) on December 7, 2016. Quarterly/Semi-Annual reports on the expenditures have been provided at regular MPWD Board Meetings.

The MPWD also continues to operate on a revenue-funded or "pay go" basis for capital outlays and improvements that would not otherwise be funded with the 2016 COP dollars. The outlays and projects are presented to the Board annually for consideration during the budget process or on a case-by-case basis as needed.

#### C. TIERED WATER RATE STRUCTURE:

The MPWD relies solely (100%) on water supply from the San Francisco Public Utilities Commission (SFPUC).

The MPWD provides a tiered rate water structure using a phased approach to keep pace with increasing wholesale water and operational costs. The tiered rate model also encourages conservation by increasing unit rates for higher consumption. The MPWD conducts a comprehensive rate review every five (5) years.

#### D. BUDGET APPROVAL:

The General Manager will present the proposed Operating and Capital Budgets in detail to the Board Finance Committee meetings in March, April, and/or May. Any adjustments and changes will be made, and the updated proposed budgets will be moved forward to the Board for consideration, and approval no later than June each fiscal year.

Staff make reasonable assumptions in preparation of the budgets. These projected assumptions are totaled, determining if there is a deficit or surplus. Any budget surplus will be credited to cash reserves. Cash reserves will be utilized for any projected budget deficits.

## **SECTION 7.0 PROCUREMENT**

Section 54202 of the California Government Code requires all local agencies to adopt written policies and procedures, including bidding requirements, for the purchase of equipment, services, and supplies. Section 30579.5 of the California Water Code authorizes the Board of Directors of a County Water District to delegate to its General Manager authority to enter into contracts on behalf of MPWD. MPWD will review its procurement process every five (5) years, or as needed.

This policy establishes procurement requirements for the purchase of goods, equipment, materials, and services and for public works/capital projects. All purchases of equipment, materials, services, or public works projects must comply with the procurement processes and dollar limits listed in this policy as set forth below.

The District will administer all contracts to ensure that contractors conform to the terms, conditions, and specifications of all contracts and to ensure all purchases and services are received in a timely manner.

### **A. BUDGET APPROPRIATIONS FOR PROCUREMENT**

#### **1. Operating Budget**

The fiscal year Operating Budget will contain a schedule of anticipated revenues and expenses that are needed for operations of the MPWD and identified by account code. Unless otherwise instructed by the Board of Directors, the General Manager has the authority to expend funds necessary for the ordinary, daily operation of the MPWD as specified in the Operating Budget subject to the limitations set forth below.

#### **2. Capital Budget**

The fiscal year Capital Budget identifies expenditures for certain specified projects and equipment. Unless otherwise instructed by the Board of Directors, the General Manager has the authority to expend funds for projects specifically designated on the approved capital expenditure budget at any time during the fiscal year up to the amounts specified and subject to the limitations set forth below.

#### **3. Non-Budget Items**

Authority from the Board of Directors shall be obtained by the General Manager prior to the expenditure of more than FIFTY THOUSAND DOLLARS (\$50,000), for a non-budgeted service or item, except in an emergency. Any non-budgeted expenditures shall be reported at the next meeting of the Board of Directors.

## B. CONSTRUCTION CONTRACTS

1. \$50,000 or less. When the estimated cost of the construction work or materials is equal to or less than FIFTY THOUSAND DOLLARS (\$50,000), the General Manager is authorized to award the contract, but shall report on the award of any such contract at the next meeting of the Board of Directors. Each contract in this category over the amount of ONE THOUSAND DOLLARS (\$1,000) must be evidenced by a written purchase order or contract.

To the extent possible, the General Manager shall obtain at least three (3) competitive quotations before entering into a contract, making special efforts to involve local contractors in all such work.

2. Exceeding \$50,000. Construction contracts involving an estimated cost of work in excess of FIFTY THOUSAND DOLLARS (\$50,000) must be approved by the Board of Directors.
3. \$50,001 - \$100,000. In cases when the estimated cost of the construction work or materials is FIFTY THOUSAND AND ONE DOLLARS (\$50,001) but equal to or less than ONE HUNDRED THOUSAND DOLLARS (\$100,000), the award of contract may be based on informal bids obtained by the General Manager. The General Manager shall not be required to advertise formally for the solicitation of bids for such contracts. To the extent possible, the General Manager shall obtain at least three (3) informal, written bids before entering into a contract.
4. Exceeding \$100,000. In cases where the estimated costs of the construction work or materials is greater than ONE HUNDRED THOUSAND DOLLARS (\$100,000), the award of contract shall be based on a competitive bid process in which sealed bids are submitted in response to an advertisement in a newspaper of general circulation in San Mateo County and are publicly opened at the specified time. The award of contract shall then be made to the lowest responsive and responsible bidder, or based on best value if it is determined to be in the best interest of the District, as identified in the IFB. The MPWD may reject any or all bids if it is in its best interest.
5. Force Account Work. The foregoing policies are not intended to preclude the General Manager from utilizing MPWD employees to carry out construction work on a force account basis.

## C. PROCUREMENTS OF EQUIPMENT OR SUPPLIES

1. \$50,000 or less. When the estimated cost of equipment or supplies, is equal to or less than FIFTY THOUSAND DOLLARS (\$50,000), the General Manager is authorized to award the contract, but shall report on the award of any such contract at the next meeting of the Board of Directors. To the extent possible, the General Manager shall obtain at least three (3) competitive quotations before entering into a contract. A contract in this

category over the amount of \$1,000 must be evidenced by a written purchase order or contract.

2. Exceeding \$50,000. Contracts for equipment or supplies covering an estimated cost of more than FIFTY THOUSAND DOLLARS (\$50,000) must be approved by the Board of Directors.
3. \$50,001 - \$100,000. When the estimated cost of equipment or supplies is FIFTY THOUSAND ONE DOLLARS (\$50,001) but equal to or less than ONE HUNDRED THOUSAND DOLLARS (\$100,000), the award of the contract may be based on informal bids obtained by the General Manager. The General Manager shall not be required to advertise formally for the solicitation of bids for such contracts. To the extent possible, the General Manager should obtain at least three (3) informal, written bids before entering into a contract.
4. Exceeding \$100,000. When the estimated cost of equipment or supplies is greater than ONE HUNDRED THOUSAND DOLLARS (\$100,000), the award of contract shall be based on a competitive bid process in which sealed bids are solicited through an advertisement in a newspaper of general circulation in San Mateo County and are publicly opened at the specified time. The award of the contract shall be made to the lowest responsive and responsible bidder. The MPWD may reject any or all bids if it is in its best interest.

#### D. PROFESSIONAL SERVICES CONTRACTS

1. General Procedures. Advertisement and competitive bidding are not required for professional service contracts. Each contract in this category must be evidenced by a negotiated and written professional services contract in a form approved by the District Counsel.
2. \$50,000 or less. The General Manager is authorized to retain professional consultants where the cost of work is negotiated and equal to or less than FIFTY THOUSAND DOLLARS (\$50,000) and shall report on the award of any such contract at the next meeting of the Board of Directors. To the extent practicable, the General Manager shall obtain at least three competitive quotations before entering into such a contract.
3. Exceeding \$50,000. Professional Services Contracts covering negotiated work the cost of which is more than FIFTY THOUSAND DOLLARS (\$50,000), must be approved by the Board of Directors. The award of the contract may be based on a competitive negotiation process or Request for Proposals.

#### E. EMERGENCY CONTRACTS

In cases of emergency, the General Manager is authorized to arrange for public works, purchase of supplies or services, or tools and equipment, without competitive bidding or proposals or prior Board approval, as required herein but shall be reported on the award of any such

contract for emergency work at the next meeting of the Board of Directors. If possible, the General Manager shall attempt to seek the concurrence of the Board President prior to awarding any contract. For purposes of this paragraph, “emergency” is defined as those circumstances requiring immediate work or construction to prevent the immediate interruption or cessation of necessary MPWD services or to safeguard life, property or the public health and welfare.

#### F. STANDARDS OF CONDUCT IN PROCUREMENTS

1. Gifts and Gratuities. These policies and any policies related to Gifts and Gratuities is governed by the MPWD Personnel Manual. Failure to follow the standards is the cause for disciplinary action, up to and including termination.
2. Conflicts of Interest. No director, officer, employee, or agent of the MPWD shall participate in any procedure, task, or decisions relative to initiation, evaluation, award, or administration of a contract if a conflict of interest, real or apparent, exists. Such a conflict of interest arises when a) the director, officer, employee, or agent, b) any member of his or her immediate family, c) his or her business associate, or d) an organization which employs, or which is about to employ, any of the above-described individuals has a financial or other interest in a firm that participates in a MPWD procurement process or that is selected for an award. The standards for governing the determination as to whether such an interest exists are set forth in the Political Reform Act (Section 87100 *et seq.* of the California Government Code) and in Section 1090 *et seq.* of the California Government Code. If there is a potential conflict of interest or perception of a conflict of interest, the staff member shall disclose such interest in writing to the General Manager as soon as possible, or in the case of the General Manager, to the General Counsel, so that the appropriate precautions may be taken.
3. Segmenting.  
In determining the procedures that must be followed for obtaining competitive bids, the scope of the contract shall be considered in its entirety. A contract shall not be divided into smaller segments to eliminate the competitive bidding requirements set forth in this policy.

#### G. LEASES, LICENSES and CONCESSIONS

Other than equipment operating leases that are included in the Operating Budget, the General Manager shall not enter into any lease, license, concession contract, lease-purchase contract, or installment contract more than \$50,000 without prior authorization from the Board of Directors.

#### H. DISPOSAL OF SURPLUS EQUIPMENT AND SCRAP ITEMS

1. Methods of Disposition.  
The method of disposing of any surplus or scrap items shall depend on the nature of the item and the possibility of the most favorable return to the MPWD. Allowable methods are:

- a. Transfer or sale to another public agency;
- b. Trade-in as part of a new procurement;
- c. Sale by auction held by the MPWD or other public entity or at any other public auction;
- d. Sale by negotiation; or
- e. Sale by public advertisement for sealed bids with an award of contract to the highest bidder.

For an item with an original acquisition of \$25,000 or less, the General Manager shall determine the appropriate method of disposition and shall report the matter to the Board of Directors. For an item with an original acquisition cost exceeding \$25,000, the Board of Directors shall determine the appropriate method of disposition considering any staff recommendation.

**I. WAIVER**

The policies and procedures specified above shall not apply in cases where the Board of Directors, in its discretion, determines that it is in the best interests of the MPWD to proceed with an alternative method of procurement and the Board waives certain requirements specified in this policy for a particular contract, unique construction project, or purchase of equipment, and which finding shall be made on the record at a Board meeting.

**J. EXCLUSIONS FROM PROCUREMENT POLICY**

- 1. A non-exclusive list of examples of non-discretionary services not governed under this policy includes, but is not limited to:
  - a. Electrical, water, or other regulated utility services provided by a municipality or vendor.
  - b. Advertisements placed in a newspaper of general circulation.
  - c. Non-discretionary payments to other government agencies.
  - d. Membership fees or dues.

**SECTION 8.0 CREDIT CARDS AND LINES OF CREDIT**

- A. APPLICATION OF POLICY - This policy will apply to both credit cards and lines of credit issued by the bank or vendor to the MPWD and authorized employees.
- B. AUTHORIZATION TO BE A CREDIT CARDHOLDER- All credit cards and lines of credit must be approved in advance by the General Manager.
- C. USE OF CREDIT - This policy will govern the use of credit cards and purchasing on accounts or cards:
  - A credit card will be issued to the General Manager, Operations Manager, and Administrative Services Manager that have the need and budget approval to efficiently purchase supplies or services on behalf of the MPWD, and to pay for MPWD travel and meeting expenses.

- The General Manager will have the authority to issue a temporary credit card to an employee who demonstrates a business need for the credit card.
- Upon approval of the vendor or credit card company, a card may be issued bearing the names of the individual, both the individual and MPWD, or MPWD.
- Purchasing/credit cards will not be transferable between individuals.

D. CARDHOLDER RESPONSIBILITIES - The cardholder must only use the purchasing/credit card for legitimate approved business of the MPWD, subject to the following regulations. The cardholder is to be aware that many credit cards look alike, and care should be taken to avoid confusing MPWD and personal credit cards. Cardholders must notify the General Manager of any inadvertent personal charges and must reimburse the MPWD immediately for such personal charges. Misuse of the card will subject the cardholder to disciplinary action in accordance with MPWD policies and procedures relating to discipline up to and including termination.

The cardholder must:

- Ensure the purchasing/credit card is used only for legitimate MPWD business purposes.
- No personal items may be charged on the business credit card or purchasing accounts.
- Ensure that expenditures are budgeted, allowable for grant purposes, necessary for the program, and that funds are available for the expenditure.
- All employees must maintain the credit card/purchasing account information, in a secure location.
- Not allow other individuals to use the purchasing account/credit card except when authorized by the General Manager.
- All charges must be in line with procurement policies and employee travel guidelines.
- Obtain all itemized sales slips, register receipts, and/or purchasing account/credit card slips and within three (3) business days provide same to the appropriate administrative employee for reconciliation, approval, and allocation of transactions.
- Ensure that an appropriate credit for the reported disputed item(s) or billing error appears on a subsequent account or cardholder statement.
- Not accept cash in lieu of a credit to the purchasing/credit card account.
- Return the credit card to the appropriate employee upon terminating employment with the MPWD.

E. CRITERIA TO BE CARDHOLDER - The criteria to receive a MPWD credit card or purchasing account authorization is as follows:

- Applicants must be employees of the MPWD.
- Applicants request for a credit card/purchasing account authorization must be approved by the General Manager.

F. CARDHOLDER LIABILITY - The purchasing account/credit card is a MPWD account/charge card which will not affect the cardholder's personal credit; however, it is the cardholder's responsibility to ensure that the card is used within stated guidelines of the purchasing/

credit card policies as well as MPWD policies and procedures relating to expenditures of MPWD funds.

Failure to comply with program guidelines may result in permanent revocation of the charging authority, notification of the situation to management, and further disciplinary measures that may include termination.

- G. LOST, MISPLACED, OR STOLEN CREDIT OR PURCHASING/CREDIT CARD - Cardholders are required to immediately report any lost or stolen purchasing/credit cards to the Administrative Services Manager or their designee, who is responsible for immediately reporting the lost/stolen card to the issuer. In the event the discovery of the lost/stolen card is made outside of normal MPWD business hours, the cardholder is responsible for notifying the issuer directly.
- H. PURCHASE DECLINES - Should the purchasing/credit card be erroneously declined by a vendor, the cardholder should immediately contact the Administrative Services Manager or their designee for assistance. If the purchase is being made outside of the normal MPWD business hours, the employee must find an alternate payment method or terminate the purchase and contact the Administrative Services Manager or their designee during normal business hours.
- I. CREDITS - Vendors will issue all credits to the individual purchasing/credit card account for any item they have agreed to accept for return. This credit will appear in a subsequent statement. Under no circumstances should a cardholder accept cash in lieu of credit to the purchasing/credit account.
- J. UNRESOLVED DISPUTES AND BILLING ERRORS - The cardholder is responsible for contacting the vendor to resolve any disputed charges or billing errors. If the matter is not resolved with the vendor, the Administrative Services Manager or their designee should be contacted for assistance.
- K. SECURITY AND STORAGE - Cardholders should always treat the MPWD purchasing/credit card with at least the same level of care as one does their own personal credit cards. The cards should be maintained in a secure location and the card account number should be carefully guarded.
- L. DOCUMENTATION - Every month, each cardholder will be provided with a statement detailing the expenditures that were charged to his/her District credit card. The cardholder will review this statement for its accuracy and any unauthorized purchases. The individual assigned to each purchasing/credit card will maintain the cardholder's vendor receipts/packing slips/charge slips until such time as they are forwarded to the Administrative Services Manager or their designee for payment. The statement will be forwarded to each cardholder to authorize the approved charges accompanied by all original supporting documentation for all charges. Documentation of meals, travel and



valid business entertainment expenditures shall include all the same elements as described in the earlier policy on employee and director business travel (e.g., names of people involved, business purpose, etc.).

All other documentation concerning the purchasing/credit card program will be maintained by the Administrative Services Manager or their designee. This documentation includes, but is not limited to, applications, cardholder agreements, MPWD billing statements, reconciliation of accounting statements, reconciliation of accounting statements, and copies of transmittals, and correspondence with issuing companies.

M. USE OF EMPLOYEE'S CREDIT CARD - Employees and officers incurring legitimate MPWD business expenses may utilize their personal credit cards for such expenditures. The MPWD shall reimburse employees and officers for properly supported and documented business expenditures charged to personal credit cards within the next vendor processing cycle upon the proper completion of an expense report. Travel advances may be requested in special circumstances (e.g., situations in which legitimate business expenses are expected to exceed an employee's credit card limit or other special cases).

N. CREDIT CARD LIMITS -

The MPWD credit card accounts are authorized for a total limit of \$150,000.

1. The General Manager's card limit is \$50,000.
2. The Operations Manager's and Administrative Services Manager's card limit is \$25,000.
3. Any card issued to a supervisor will have a limit of \$10,000.
4. Additional cards (including temporary cards) issued to employees will be at the sole discretion of the General Manager and will not exceed the limit of \$5,000.

O. PURCHASING ACCOUNTS. For example, Home Depot, Office Depot, and Costco. Purchasing limits will be established and approved by the General Manager and maintained within documented established internal control procedures.

**SECTION 9.0 TRAVEL AND EMPLOYEE EXPENSE REIMBURSEMENT**

Travel and Employee Expense Reimbursement and any policies related to Travel and Employee Expense Reimbursement are governed by the MPWD's Personnel Policy.

**SECTION 10.0                      RECORDS MANAGEMENT**

RECORDS SECURITY. Records maintained because of this policy and related to internal control procedures developed by MPWD staff will be governed by the MPWD's Records Retention Policy.

**SECTION 11.0                      MPWD FINANCIAL MANAGEMENT POLICY HISTORY**

1. Resolution 2024-XX dated \_\_\_\_\_, 2024, represents adoption of the MPWD's first comprehensive Financial Management Policy.
2. This policy will be reviewed and considered for update every two (2) years, except as otherwise noted within this policy, or as necessary when there are new legal requirements or policies developed.

**RESOLUTION NO. 2005-11**

**ADOPTING A CHARITABLE GIVING POLICY**

**MID-PENINSULA WATER DISTRICT**

**WHEREAS**, The Mid-Peninsula Water District ("District") desires to adopt a formal policy concerning charitable donations of District funds or resources to ensure that any such donations are a valid use of public money and resources and do not violate the prohibition against gifts of public funds in Article XVI, Section 6 of the California Constitution; and

**WHEREAS**, a Charitable Giving Policy demonstrates the District's commitment to fiscal responsibility and prudent financial management as well as its desire to be a vibrant member of the community it serves; and

**WHEREAS**, in developing this policy, the Board of Directors considered the recommendations for adopting a Charitable Giving Policy included in the California State Auditor Report 2003-136; and

**WHEREAS**, the General Manager recommends that the Board of Directors adopt the attached Charitable Giving Policy.

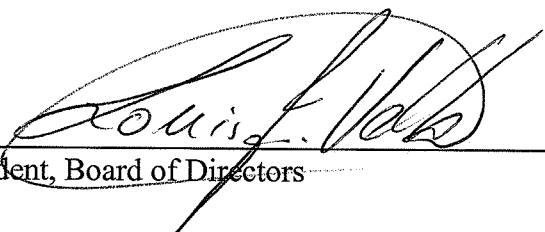
**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the Mid-Peninsula Water District that the "Charitable Giving Policy" as set forth in the Exhibit, attached hereto and incorporated herein, is hereby approved.


**REGULARLY PASSED AND ADOPTED** this 15th day of December 2005, by the following vote:

**AYES:** Directors Altscher, Feldman, Vella, Wagenseller, Zucca

**NOES:** None

**ABSENT:** None

  
\_\_\_\_\_  
President, Board of Directors

**ATTEST:**  
  
\_\_\_\_\_  
Secretary of the District

**MID-PENINSULA WATER DISTRICT**  
**Charitable Giving Policy**

**General Policy**

The Mid-Peninsula Water District follows prudent financial management practices to ensure the proper and efficient use of public funds and resources and operates in a fiscally responsible manner. The District further strives to be a vibrant member of the community it serves by participating in local community events. On occasion, the District receives requests for charitable donations of District funds or resources to community organizations or events. In general, donations of District funds or resources are prohibited as gifts of public funds by Article XVI, Section 6 of the California Constitution and the District will deny such requests. In very limited circumstances, the District may make reasonable charitable donations of District funds or resources only to those community organizations or events that are related to and will further the authorized public purposes of the District in accordance with the guidelines below. Each request will be considered on a case-by-case basis and any approval or denial is at the District's sole discretion and will not set any precedent for any future request.

**A. Types of Authorized Donations**

The Mid-Peninsula Water District may donate money or in-kind supplies, equipment or services to public or non-profit (501(c)(3)) community organizations if the following conditions are met:

1. The organization conducts activities in or that benefit the District's service area;  
and
2. The organization agrees to use the District's donation only in a manner and for specific activities that serve a District-related public purpose; i.e., activities that promote or further the District's specific authorized public purposes as a water district, such as activities related to water supply and quality, storage and distribution; water use and conservation; or water security, safety and health.

**B. Amount of Authorized Donations**

The amount of any donation, money or in-kind, will be reasonable and based on the full or partial cost of the specific activity that the donation will be used to support.

1. The General Manager is authorized to approve requests for donations up to \$500 in value in accordance with this Policy and within the approved budget. The General Manager will report any such approved donations to the Board of Directors at the next regular Board meeting, which report will be included in the minutes of such meeting.
2. The Board of Directors will approve any requests for donations that exceed \$500 in value in accordance with this Policy.

### **C. Approval and Documentation**

1. Qualifying organizations may submit requests for donations in writing to the General Manager, which must include a brief description of the organization, the activity the donation will be used to support, the amount and type of the donation requested, and agreement that the organization will only use the donation for its intended purposes as approved by the District.

2. The General Manager, in consultation with General Counsel when necessary, will review each request and determine whether it meets the criteria in Section A and whether the amount is appropriate. For requests up to \$500, the General Manager may approve the request. For requests over \$500, the Board of Directors, on recommendation of the General Manager, may approve the request. The General Manager will respond to each request in writing.

3. The General Manager will create an annual report that documents all approved charitable donations including the organization, the amount and type of donation, and a brief justification that the donation served a valid District-related public purpose and was in a reasonable amount.

4. The Board of Directors will review the annual report each year in conjunction with the adoption of the District's budgets.

Approved: December 15, 2005 by Resolution No. 2005-11