NOTICE OF SPECIAL BUDGET & FINANCE COMMITTEE MEETING

Responsible for the review of District finances including: rates, fees, charges and other sources of revenue; budget and reserves; audit; investments; insurance; and other financial matters.

<u>**NOTICE IS HEREBY GIVEN**</u> that the San Lorenzo Valley Water District has called a special meeting of the Budget & Finance Committee to be held on **Wednesday, November 7, 2018 at 10:00 a.m.** at the SLVWD Boardroom, 13057 Highway 9, Boulder Creek, California.

AGENDA

1. Convene Meeting/Roll Call

2. Oral Communications
   This portion of the agenda is reserved for Oral Communications by the public for items which are not on the Agenda. Please understand that California law (The Brown Act) limits what the Committee can do regarding issues raised during Oral Communication. No action or discussion may occur on issues outside of those already listed on today's agenda. Any person may address the Committee at this time, on any subject that lies within the jurisdiction of this committee. Normally, presentations must not exceed three (3) minutes in length, and individuals may only speak once during Oral Communications. Any Director may request that the matter be placed on a future agenda or staff may be directed to provide a brief response.

3. Old Business: None
   Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agendized items.

4. New Business:
   Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agendized items.

   A. DEBT MANAGEMENT POLICY
   Discussion by the Committee regarding the proposed Debt Management Policy.

   B. DRAFT FISCAL YEAR 2017-2018 AUDIT
   Discussion by the Committee regarding the draft FY17-18 audited financial results.

   C. GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA) DISTINGUISHED BUDGET PRESENTATION AWARDS PROGRAM
   Discussion by the Committee regarding the GFOA Budget Award requirements.

5. Informational Material: None.

6. Adjournment

In compliance with the requirements of Title II of the American Disabilities Act of 1990, the San Lorenzo Valley Water District requires that any person in need of any type of special equipment, assistance or accommodation(s) in order to communicate at the District's Public Meeting can contact the District Office at (831) 338-2153 a minimum of 72 hours prior to the scheduled meeting.

Agenda documents, including materials related to an item on this agenda submitted to the Committee after distribution of the agenda packet, are available for public inspection and may be reviewed at the office of the District Secretary, 13060 Highway 9, Boulder Creek, CA 95006 during normal business hours. Such documents may also be available on the District website at www.slvwd.com subject to staff's ability to post the documents before the meeting.

Certification of Posting

I hereby certify that on November 2, 2018, I posted a copy of the foregoing agenda in the outside display case at the District Office, 13060 Highway 9, Boulder Creek, California 95006, said time being at least 24 hours in advance of the special meeting of the Budget & Finance Committee of the San Lorenzo Valley Water District in compliance with California Government Code Section 54956.

Executed at Boulder Creek, California, on November 2, 2018.

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Holly B. Hossack, District Secretary
San Lorenzo Valley Water District

SAN LORENZO VALLEY WATER DISTRICT
DEBT MANAGEMENT POLICY
Effective: November 15, 2018

Policy Statement

This policy documents the goals and guidelines of the San Lorenzo Valley Water District (the "District") for the use of debt instruments for financing the District's water and sewer systems, and projects therefor, and other financing needs. The District recognizes the need to invest in ongoing capital replacement and rehabilitation of its facilities as well as new infrastructure to ensure future viability of services, and that the appropriate use of debt can facilitate the timely construction of such facilities.

The District expects to pay for infrastructure and other projects from a combination of current revenues, available reserves, and prudently issued debt. The District recognizes that debt can provide an equitable means of financing projects for its customers and provide access to new capital needed for infrastructure and project needs. Debt will be used to meet financing needs (i) if it meets the goals of equitable treatment of all customers, both current and future; (ii) if it is cost-effective and fiscally prudent, responsible, and diligent under the prevailing economic conditions; and (iii) if there are other important policy reasons therefor. All District debt must be approved by the Board of Directors ("Board").

To endorse prudent financial management and achieve the highest practical credit ratings, the District is committed to systematic capital planning, and long-term financial planning. Evidence of this commitment to long-term capital planning is demonstrated through adoption and periodic adjustment of the District's current capital improvement program or plan ("CIP") identifying the benefits, costs and method of funding capital improvement projects over the planning horizon.

Purpose of Policy

The purpose of this debt management policy is to:

- Establish parameters for issuing debt, including the purposes for which debt can be issued and used;
- Describe how debt and debt proceeds will be managed;
- Provide guidance as to the type of debt to be issued; and
- Provide guidance as to the relationship between the capital improvement plan and debt issuance.

Purpose and Use of Debt

The District will utilize reasonable debt financing to fund long-term improvements and thus ensure equitable allocation of costs. Long-term improvements may include the acquisition of land, facilities, and infrastructure; and enhancements or expansions to existing facilities for providing drinking water services and sewage collection and treatment services to those properties located within the District's boundaries. Debt can be issued to fund the planning, pre-design, design, land and/or easement acquisition, construction, and related fixtures, equipment and other costs as permitted by law. The District will not issue debt to cover operating needs.

The District may utilize short-term financing (including leases) to, among other things, finance certain essential equipment and vehicles. These assets can range from service vehicles to equipment. The underlying asset must have a minimum useful life of one year or more. Short-term financings, including loans, on bill financing and capital lease purchase agreements, are executed to meet such needs.

The District Manager will periodically evaluate the District's existing debt and recommend refinancings or prepayment (refunding) when economically beneficial. A refinancing may include the issuance of bonds to refund existing bonds or the issuance of bonds in order to refund other obligations, such as commercial paper or loans.

The District Manager, Underwriter and Municipal Advisor (if any shall then be retained) as appropriate shall be responsible for analyzing any debt financing proposal to determine if it is beneficial to the District and if it complies with the District's long-term financial planning objectives, including maintaining or improving the current credit ratings assigned to outstanding debt by the major credit rating agencies.

The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized. Debt may only be issued upon Board authorization. No debt shall be issued with a maturity date greater than the expected weighted average useful life of the facilities or improvements being financed. The final maturity of bonds or state or federal loan debt shall be limited to 40 years after the date of issuance.

Debt Management

The District will provide for a periodic review of its financial performance and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the capital planning, budgeting, and rate setting process. As part of the rate setting process, the District may choose to hire an independent Rate Consultant to prepare a Rate Study. Necessary appropriations for annual debt service requirements will be routinely included in the District's annual budget. The District will maintain proactive communication with the investment community, including rating agencies, credit enhancers and investors, to ensure future capital market access at the lowest possible interest rates.

The following principles outline the District's approach to debt management:

- The District will issue debt only in the case where there is an identified source of repayment. Debt will be issued to the extent that (i) projected existing revenues are sufficient to pay for the proposed debt service together with existing debt service covered by such existing revenues, (ii) additional revenues, as necessary, have been identified as a source of repayment in an amount sufficient to pay for the proposed debt, and (iii) bond covenants will be maintained.

- Debt will be structured for the shortest period possible, consistent with an equitable allocation of costs to current and future users. Borrowings by the District should be of a duration that does not exceed the useful life of the improvement that it finances and where feasible, should be shorter than the projected economic life.

- The District may issue bonds on a fixed or variable interest rate basis. The District's standard practice shall be to issue bonds on a fixed rate basis. Fixed rate securities ensure budget certainty through the life of the securities and can be advantageous in a low interest rate environment. In rare instances, where the financial advantage of such financing structure is significant and only with the unanimous approval of the District's Board members, the District may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities. Such variable rate bonds will be limited to no more than 25% of outstanding debt.

The proceeds of the bond sales will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety. The District's Investment Policy and the specific bond Indentures govern objectives and criteria for investment of bond proceeds. The District 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 issuance, while complying with arbitrage and tax provisions.

Bond proceeds will be deposited and recorded in separate accounts to ensure funds are not comingled with other forms of District cash and investments. The District's trustee will administer the disbursement of bond proceeds pursuant to an Indenture of Trust, a Trust Agreement, Installment Sale Agreement, or such other documents governing debt issuance (collectively, the "Indenture"). Requisition for the disbursement of bonds funds must be approved by the District Manager.

The District Manager will monitor dedicated debt reserve fund balances and periodically review the advisability of prepayment or refunding of related debt. The financial advantages of a current refunding must outweigh the cost of reissuing new debt. A potential refunding will be assessed in combination with any new capital projects requiring financing, and the benefits of the refunding will be evaluated in relation to its costs and risks.

Debt can be refunded to achieve one or more of the following objectives:

- To reduce future interest costs;
- To restructure future debt service in response to evolving conditions regarding anticipated revenue sources;
- To accomplish tax-exempt refundings (that is, refinancings within 90 days of the call date), which must meet a minimum net present value savings target of 2.5% of refunded bonds; and
- To restructure the legal requirements, termed covenants of the original issue to reflect more closely the changing conditions of the District or the type of debt.

Debt Service Coverage Target

The District will not engage in debt financing unless the proposed obligation, when combined with all existing debts, will result in acceptable debt service coverage ratios. In determining the affordability of proposed revenue bonds, the District will perform an analysis comparing projected annual net revenues (after payment of operating and maintenance ("O&M expense") to estimated annual debt service and estimated debt service coverage ratio ("DCR"). DCR is the amount of cash flow available to meet annual interest and principal payment on debt.

The District's objective is to maintain a DCR at or above 1.25 times to maintain its high quality credit rating.

Debt Instrument Rating

The District Manager, with the advice of the District's Municipal Advisor (if any shall then be retained), will assess whether a credit rating should be obtained for an issuance and make a recommendation to the Board. If it is determined that a credit rating is desirable, the probable rating of the proposed debt issuance is assessed before its issuance, and necessary steps are taken in structuring the debt issuance to ensure that the best possible rating is achieved.

Debt Structuring

In structuring a debt issuance, the District will manage the amortization of debt, and to the extent possible, match its cash flow to the anticipated debt service payments. The District will seek to structure debt with aggregate level principal and interest payments over the life of the borrowing. "Backloading" of debt service will be considered only when such structuring is beneficial to the District's aggregate overall debt payment schedule.

The District Manager, with the advice of the District's Underwriter or Municipal Advisor, as applicable (if any shall then be retained), will evaluate and recommend to the Board the use of a call option, if any, and call protection period for each issuance. A call option, or optional redemption provision, gives the District the right to prepay or retire debt prior to its stated maturity. This option may permit the District to achieve interest savings in the future through refunding of the bonds. Because the cost of call options can vary widely, depending on market conditions, an evaluation of factors, such as the call premium, time until the bonds may be called at a premium or at par, and interest rate volatility will guide the decision to issue bonds with a call option. Generally, 30-year tax exempt municipal borrowings are structured with a 10-year call. From time to time, shorter call options (5-9 years) may also be used.

Types of Debt

Permissible types of debt issuable under this policy include, but are not limited to, revenue bonds, Certificates of Participation, variable rate bonds, state revolving fund ("SRF") loans, federal loans, bank loans, notes, commercial paper, direct placements, capital leases, and lease-purchase financing. The weighted average useful life of the asset(s) or project shall exceed the payout schedule of any debt the District assumes.

In addition to the aforementioned long and short-term financing instruments, the District may also consider joint arrangements with other governmental agencies. Communication and coordination will be made with local governments regarding cost sharing in potential joint projects, including leveraging grants and funding sources.

The District is authorized to join with other special districts and/or municipal agencies to create a separate entity, a Joint Powers Authority, to issue debt on behalf of the District, the special district or municipality. The District will only be liable for its share of debt service, as specified in a contract executed in connection with the joint venture debt.

Credit Enhancement

Credit enhancement may be used to improve or establish a credit rating on District debt obligation. Types of credit enhancement include Letters of Credit, bond insurance or surety policies. The District Manager will recommend to the Board the use of credit enhancement if it reduces the overall cost of the proposed financing or if, in the opinion of the District Manager (with the advice of counsel and the District's Municipal Advisor, if any shall then be retained), the use of such credit enhancement furthers the District's overall financial objectives.

Debt Service Reserve Fund/Surety Policy

Unless there are market requirements or it is important to increase credit ratings, the District will not fund a debt service reserve fund as part of its debt issuance. To the extent the District Manager (with the advice of counsel and the District's Municipal Advisor, if any shall then be retained) determine that a debt service reserve fund is advantageous, the debt reserves will be maintained in accordance with the applicable Indenture or the current District reserve policy (if any).

Capitalized Interest

Generally, interest shall be capitalized for the construction period of a revenue-producing project, and debt service does not begin until the project is expected to be operational and producing revenues. In addition, for lease back arrangements, such as those used for lease revenue bond transactions, interest may be capitalized for the construction period, until the asset is operational. Only under extraordinary circumstances, interest may be capitalized for a period longer than the construction period.

Credit Ratings

The District will seek to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising the District's policy objectives. Ratings are a reflection of the general fiscal health of the District. By maintaining the highest possible credit ratings, the District can issue its debt at a lower interest cost. To enhance creditworthiness, the District is committed to prudent financial management, systematic capital planning, and long-term financial planning.

The District recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Each proposal for additional debt will be analyzed for its impact upon the District's debt rating on outstanding debt.

Rating Agency Relationships

The District may seek credit ratings from any or all of the major credit rating agencies - Standard & Poor's, Moody's Investors Service, and Fitch Investors Service, as appropriate. In addition, the District will evaluate the value of additional ratings on a case by case basis (e.g., Kroll Rating Services). District staff will provide periodic updates to the rating agencies, both formal and informal, on the District's general financial condition and coordinate meetings and presentations in conjunction with a new debt issuance when determined necessary.

The retention of a rating agency relationship will be based on a determination of the potential for more favorable interest costs as compared to the direct and indirect cost of maintaining that relationship.

Bond Ratings

The District Manager, with the advice of the District's Underwriter or Municipal Advisor, as applicable, (if any shall then be retained), shall be responsible for determining whether a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

Method of Sale

The District will select the method of sale which best fits the type of bonds being sold based on the term of the project, market conditions, and the structure of bond maturities which enhances the overall performance of the entire debt portfolio. Three general methods exist for the sale of municipal bonds:

I. ***Competitive sale***. Bonds will be marketed to a wide audience of investment banking (underwriting) firms. The underwriter is selected based on its best bid for its securities. The District will award the sale of the competitively sold bonds on a true interest cost ("TIC") basis. Pursuant to this policy, the District Manager is hereby authorized to sign the bid form on behalf of the District fixing the interest rates on bonds sold on a competitive basis.

II. ***Negotiated sale***. The District Manager shall select the underwriter, or team of underwriters, of its securities in advance of the bond sale, subject to Board approval. The District works with the underwriter to bring the issue to market and negotiates all rates and terms of the sale. In advance of the sale, after receiving approval from the Board of Directors, and with advice from the District's Municipal Advisor (if any shall then be retained), the District Manager will determine compensation for and liability of each underwriter employed and the designation rules and priority of orders under which the sale itself will be conducted. Pursuant to this policy, the District Manager is hereby authorized to sign the bond purchase agreement on behalf of the District fixing the interest rates on bonds sold on a negotiated basis.

III. ***Private placement***. The District may elect to issue debt on a private placement basis. Such method shall be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or of it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

Roles and Responsibility

The primary responsibility for developing debt financing recommendations rests with the District Manager. In developing such recommendations, the District Manager shall consider the need for debt financing and assess progress on the current CIP and any other program/improvement deemed necessary by the District. The Board authorizes and approves debt financing and/or debt service related recommendations and proposals.

All proposed debt financings shall be approved by the Board. Debt is to be issued pursuant to the authority of and in full compliance with provisions, restrictions and limitations of the Constitution and laws of the State of California, including Government Code ("CGC") §54300 et seq. and §53570 et seq.

Bond Counsel

The District will retain external bond counsel for all debt issues. As part of its responsibility to oversee and coordinate the marketing of all District indebtedness, the District Manager shall make recommendations for approval by the Board on the retention of bond counsel.

Bond counsel will prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing. All debt issued by the District will include a written opinion by bond counsel affirming that the District is authorized to issue the debt, stating that the District has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status.

Municipal Advisors

The District will seek the advice of the Municipal Advisor when necessary. The Municipal Advisor will advise on the structuring of obligations to be issued, provide information on various options, give advice as to how choices will impact the marketability of the District's obligations and will provide other services as required.

Underwriters

When a negotiated sale will provide significant benefits to the District that would not be achieved through a competitive sale, the District may elect to sell its debt obligations through negotiated sale, upon approval by the Board of Directors. Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program. The District Manager shall select the Underwriter. A competitive process may be used but shall not be required. Before work commences on a bond issue to be sold at negotiated sale, the Underwriter shall provide the District Manager a detailed estimate of all components of their compensation, and disclose any potential conflicts of interest.

Federal Arbitrage and Rebate Compliance – Internal Controls

The District will fully comply with federal arbitrage and rebate regulations. Concurrent with this policy, the District Manager will take all permitted steps to minimize any rebate liability through proactive management in the structuring and oversight of its individual debt issues. All of the District's tax-exempt issues, including lease purchase agreements, are subject to arbitrage compliance regulations.

The District Manager shall be responsible for the following:

I. Monitoring the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued and exercising best efforts to spend bond proceeds in such a manner that the District shall meet one of the spend-down exemptions from arbitrage rebate. Tax-exempt bonds will not be issued unless it can be reasonably expected that 85% of the proceeds will be expended within the three-year temporary period.

II. Monitoring the investment of bond proceeds with awareness of rules pertaining to yield restrictions. Maintaining detailed investment records, including purchase prices, sale prices and comparable market prices for all securities.

III. Contracting the services of outside arbitrage consultants to establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code.

To the extent any arbitrage rebate liability exists, the District will report such liability in its annual audited financial statements.

Continuing Disclosure

The District will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the Securities Exchange Commission Rule 15c2-12. The District Manager shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system, the central depository designated by the SEC for ongoing disclosures by municipal issuers. The District Manager may determine to hire an outside consultant to assist the District with its secondary disclosure requirements under Rule 15c2-12.

The District will keep current with any changes in both the administrative aspects of its filing requirements and the national repositories responsible for ensuring issuer compliance with the continuing disclosure regulations. In the event a "listed event" occurs requiring immediate disclosure, the District Manager will ensure information flows to the appropriate disclosure notification parties.

Compliance with Bond Covenants

In addition to financial disclosure and arbitrage compliance, once the bonds are issued, the District is responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- Annual appropriation of revenues to meet debt service payments;
- Timely transfer of debt service payments to the trustee or paying agent;
- Compliance with insurance requirements;
- Compliance with rate covenants, where applicable; and
- Compliance with all other bond covenants.

On an annual basis, the District Manager will prepare all required debt related schedules and footnotes for inclusion in the District's audited financial statements. The audited financial statements shall describe in detail all funds, fund balances and debt service coverage tables, if applicable, established as part of any direct debt financing of the District, including the following information for each fiscal year:

- Debt authorized at the beginning of, during, and at the end of the fiscal year, whether or not such debt is issued, as well as debt authority lapsed during the fiscal year;
- Principal amount of initial outstanding debt, paid outstanding debt, and remaining outstanding debt at the end of the fiscal year;
- Amount of initial debt proceeds, expended debt proceeds and their purpose, and debt proceeds remaining at the end of the fiscal year.

The audited financial statements may also contain a report detailing any material or rate covenants contained in any direct offering of the District and whether or not such covenants have been satisfied.

Policy Review

On an as needed basis, the District Manager will be responsible for updating and revising this Policy which shall be reviewed at the Board meeting and adopted by the Board of Directors.

M E M O

TO: Budget & Finance Committee

FROM: Director of Finance

SUBJECT: Draft Audited Financial Review (High Level)

DATE: November 7, 2018

RECOMMENDATION:

It is recommended the Committee review these draft financial numbers. A full draft CAFR will be available in the near future to review. There will be a Special Board of Directors meeting on 11/28/2018 to go over the full audited results. There will then be a review against budget at the 12/4/2018 Budget & Finance Committee.

BACKGROUND:

The draft numbers are part of the District's Comprehensive Annual Financial Report (CAFR) for fiscal year 2017-2018. These are the main high level numbers that will be supported by the notes in the full CAFR. I have also included some high level comparisons to the budget. This can be helpful when there were planned changes, such as the rate increase.

The District is required by state law to annually examine its financial records. The CAFR furnishes information concerning the District's financial position and activities for the one (1) year period from July 1, 2017 – June 30, 2018 for all funds:

- Net position increased 3% or $833,509 to $29,088,944. Net position is made up of three components: net investment in capital assets, restricted net position and unrestricted net position
  - Net investment in capital (net of related debt) increased 3% or $727,052. There was depreciation expense of $1,640,273 compared to the investment in current year capital of $1,395,908.
    - The District has been ramping up the capital expenditures in the current FY1819 with the additional revenue from the rate increase.
  - Restricted net position decreased by $48,815 to $637,205. Restricted is for contractual restricted amounts such as required by debt covenants and assessment districts.
  - Unrestricted net position increased $155,272, leaving the deficit balance at $827,010. As discussed in prior years, there have been certain events that put the District at a deficit. Main contributors to this were interties 2, 3 & 4, in 2016, where once the grant funding ran out, the remaining was paid from our

cash. Another factor this year was the GASB 75 accounting pronouncement that required the District to put Other Post-Employment Benefits (OPEB) liabilities on the books. This resulted in a $700K increase to liabilities. Prior to the adjustment, the District had a positive $1.5M increase to net position.

- Operating revenues increased 24% or $1.8M to $9.2M, primarily due to increased water sales revenues related to the 2017 rate increase. As compared to the revised budget, operating revenues were up 6%, or $401,490.

- Operating expenses increased 2% or $500K to $7.7M. This increase was due to a full year of new hires from fiscal year 2016-2017, as well as planned new hires during fiscal year 2017-2018. As compared to budget, operating expenses were up 2%, or $175K.
  - In addition to the expected salaries and benefits, there were higher than expected legal expenses, this even exceeded the revised budget request. There will be a more in depth review at the actuals vs. budget review in December.

- Non-operating revenues were similar to the prior year and budget.

- Non-operating expenses were similar to the prior year and budget.

- Net income before capital contributions increased 2,595%, or $1.1M to $1.1M. This is a good indicator that the District is moving in the right direction. With continued positive income, we will focus on building reserves back up and funding capital projects.

- Net income after capital contributions increased 3,658%, or $1.5M to $1.5M. This was due to receiving $434K in emergency funds from FEMA for the 2016 storm damage.

- Net position for the end of period increased $833,509, compared to the $1.5M mentioned above, this was due to the GASB 75 OPEB entry to bring the liability on our books.

It is important to understand the differences between external and internal financial reports and analysis. Audited financial statements, unlike budgets, have been examined, or "audited," by an external, independent certified public accountant. Extensive tests are performed on account details and balances that are represented on a company's financial statements to ensure their accuracy and reliability, while budgets are reviewed internally by upper management to ensure company goals and targets are reasonable and achievable, and its resources are being allocated in a way that maximizes revenue.

This current process is mainly for the audit portion of the fiscal year 2017 - 2018 results. There will be a more in depth review of how the results compared to the budget at the December Budget & Finance Committee meeting.

San Lorenzo Valley Water District
Statements of Net Position
June 30, 2018 and 2017

	2018	2017	2016	*2018 Change*	*2017 Change*	*2018 % Change*	*2017 % Change*
Current assets:							
Cash & cash equivalents (note 2)	$ 694,844	417,323	1,676,923	*277,521*	*(1,259,600)*	*67%*	*-75%*
Cash & cash equivalents – restricted (note 2)	637,205	686,020	403,624	*(48,815)*	*282,396*	*-7%*	*70%*
Accrued interest receivable	-	-	155	*-*	*(155)*		*-100%*
Investments (note 2)	2,062,184	1,503,115	930,412	*559,069*	*572,703*	*37%*	*62%*
Accounts receivable – water sales and services	1,411,630	1,025,901	993,952	*385,729*	*31,949*	*38%*	*3%*
Accounts receivable – property taxes	2,477	2,398	1,296	*79*	*1,102*	*3%*	*85%*
Accounts receivable – settlement agreement (note 3)	-	46,392	36,392	*(46,392)*	*10,000*	*-100%*	*27%*
Accounts receivable – grant and loan receivable (note 4)	-	-	31,530	*-*	*(31,530)*		*-100%*
Accounts receivable – other	13,754	13,508	29,986	*246*	*(16,478)*	*2%*	*-55%*
Prepaid expenses	54,052	160	41,526	*53,892*	*(41,366)*	*33683%*	*-100%*
Materials and supplies inventory	253,996	233,395	225,327	*20,601*	*8,068*	*9%*	*4%*
Total current assets	5,130,142	3,928,212	4,371,123	*1,201,930*	*(442,911)*	*31%*	*-10%*
Non-current assets:							
Investments (note 2)	-	-	-	*-*	*-*		
Capital assets – not being depreciated (note 5)	8,010,150	7,024,237	14,972,454	*985,913*	*(7,948,217)*	*14%*	*-53%*
Capital assets – being depreciated (note 5)	26,518,581	27,748,859	20,233,772	*(1,230,278)*	*7,515,087*	*-4%*	*37%*
Total non-current assets	34,528,731	34,773,096	35,206,226	*244,365*	*433,130*	*1%*	*1%*
Total assets	39,658,873	38,701,308	39,577,349	*(957,565)*	*876,041*	*-2%*	*2%*
Deferred outflows of resources:							
Deferred pension outflows (note 10)	1,253,820	1,007,189	378,695	*246,631*	*628,494*	*24%*	*166%*
Total deferred outflows of resources	$ 1,253,820	1,007,189	378,695	*(246,631)*	*(628,494)*	*-24%*	*-166%*

	2018	2017	2016	*2018 Change*	*2017 Change*	*2018 % Change*	*2017 % Change*
Current liabilities:							
Accounts payable and accrued expense	$ 384,347	329,603	941,375	*54,744*	*(611,772)*	*17%*	*-65%*
Accrued wages and related payables	233,296	216,305	175,956	*16,991*	*40,349*	*8%*	*23%*
Unearned revenues – customer deposits	102,445	54,992	83,306	*47,453*	*(28,314)*	*86%*	*-34%*
Unearned revenues – construction deposits	15,478	95,622	121,360	*(80,144)*	*(25,738)*	*-84%*	*-21%*
Accrued interest payable	15,999	21,624	28,940	*(5,625)*	*(7,316)*	*-26%*	*-25%*
Long-term liabilities – due in one year:							
Compensated absences (note 6)	185,103	170,750	164,577	*14,353*	*6,173*	*8%*	*4%*
Loans payable (note 9)	245,920	239,629	175,769	*6,291*	*63,860*	*3%*	*36%*
Bonds payable (note 9)	666,015	710,030	697,478	*(44,015)*	*12,552*	*-6%*	*2%*
Capital lease payable (note 9)	22,505	21,778	-	*727*	*21,778*	*3%*	
Total current liabilities	1,871,108	1,860,333	2,388,761	*10,775*	*(528,428)*	*1%*	*-22%*
Non-current liabilities:							
Long-term liabilities – due in more than one year:							
Compensated absences (note 6)	329,071	303,555	292,582	*25,516*	*10,973*	*8%*	*4%*
Net OPEB liability (note 7)	1,029,266	262,939	238,911	*766,327*	*24,028*	*291%*	*10%*
Net pension liability (note 10)	3,969,598	3,511,169	2,522,518	*458,429*	*988,651*	*13%*	*39%*
Loans payable (note 9)	3,065,715	3,311,614	3,241,224	*(245,899)*	*70,390*	*-7%*	*2%*
Bonds payable (note 9)	1,179,808	1,845,824	2,555,854	*(666,016)*	*(710,030)*	*-36%*	*-28%*
Capital lease payable (note 9)	70,019	92,524	-	*(22,505)*	*92,524*	*-24%*	
Total non-current liabilities	9,643,477	9,327,625	8,851,089	*315,852*	*476,536*	*3%*	*5%*
Total liabilities	11,514,585	11,187,958	11,239,850	*326,627*	*(51,892)*	*3%*	*0%*
Deferred inflows of resources							
Deferred pension inflows (note 10)	276,001	265,104	501,677	*10,897*	*(236,573)*	*4%*	*-47%*
Deferred OPEB inflows (note 10)	33,163	-	-	*33,163*	*-*		
Total deferred inflows of resources	309,164	265,104	501,677	*44,060*	*(236,573)*	*17%*	*-47%*
Net position: (note 11)							
Net investment in capital assets	29,278,749	28,551,697	28,535,901	*727,052*	*15,796*	*3%*	*0%*
Restricted	637,205	686,020	403,624	*(48,815)*	*282,396*	*-7%*	*70%*
Unrestricted (deficit)	(827,010)	(982,282)	(725,008)	*155,272*	*(257,274)*	*-16%*	*35%*
Total net position	$ 29,088,944	28,255,435	28,214,517	*833,509*	*40,918*	*3%*	*0%*

San Lorenzo Valley Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017

	2018	2017	2016	*2018 Change*	*2017 Change*	*2018 % Change*	*2017 % Change*
Operating revenues:							
Water consumption sales	$ 8,983,340	7,157,650	6,145,076	*1,825,690*	*1,012,574*	*26%*	*16%*
Wastewater service	100,138	102,107	98,262	*(1,969)*	*3,845*	*-2%*	*4%*
Meter sales, charges and penalties	128,305	178,632	194,444	*(50,327)*	*(15,812)*	*-28%*	*-8%*
Other charges and services	3,581	7,741	18,399	*(4,160)*	*(10,658)*	*-54%*	*-58%*
Total operating revenues	9,215,364	7,446,130	6,456,181	*1,769,234*	*989,949*	*24%*	*15%*
Operating expenses:							
Salaries and benefits	4,840,518	4,498,595	3,304,540	*341,923*	*1,194,055*	*8%*	*36%*
Professional services	1,419,279	1,202,004	868,218	*217,275*	*333,786*	*18%*	*38%*
Operational	320,876	464,236	410,342	*(143,360)*	*53,894*	*-31%*	*13%*
Maintenance	143,714	130,244	183,215	*13,470*	*(52,971)*	*10%*	*-29%*
Facilities	554,547	499,400	442,014	*55,147*	*57,386*	*11%*	*13%*
General and administrative	382,857	314,979	352,510	*67,878*	*(37,531)*	*22%*	*-11%*
Total operating expenses	7,661,791	7,109,458	5,560,839	*552,333*	*1,548,619*	*8%*	*28%*
Operating income before overhead absorption	1,553,573	336,672	895,342	*1,216,901*	*(558,670)*	*361%*	*-62%*
Overhead absorption	163,697	74,683	19,637	*89,014*	*55,046*	*119%*	*280%*
Operating income before depreciation expense	1,717,270	411,355	914,979	*1,305,915*	*(503,624)*	*317%*	*-55%*
Depreciation expense	(1,640,273)	(1,417,477)	(1,326,056)	*(222,796)*	*(91,421)*	*16%*	*7%*
Operating income (loss)	76,997	(1,006,122)	(411,077)	*1,083,119*	*(595,045)*	*-108%*	*145%*
Non-operating revenues (expenses):							
Property tax/assessment revenues	1,096,534	1,129,838	610,634	*(33,304)*	*519,204*	*-3%*	*85%*
Realized gain on investments	23,040	13,858	11,502	*9,182*	*2,356*	*66%*	*20%*
Rental revenue	56,647	59,548	43,922	*(2,901)*	*15,626*	*-5%*	*36%*
Interest expense	(150,507)	(166,204)	(185,411)	*15,697*	*19,207*	*-9%*	*-10%*
Settlement and purchase agreements	-	10,000	-	*(10,000)*	*10,000*	*-100%*	
Total non-operating revenues, net	1,025,714	1,047,040	480,647	*(21,326)*	*566,393*	*-2%*	*118%*
Net income before capital contributions	1,102,711	40,918	69,570	*1,061,793*	*(28,652)*	*2595%*	*-41%*
Capital contributions:							
Capital grants – other governments	434,908	-	1,557,589	*434,908*	*(1,557,589)*		*-100%*
Total capital contributions	434,908	-	1,557,589	*434,908*	*(1,557,589)*		*-100%*
Change in net position	1,537,619	40,918	1,627,159	*1,496,701*	*(1,586,241)*	*3658%*	*-97%*
Net position, beginning of period, as previously stated	28,255,435	28,214,517	25,578,166			*0%*	*0%*
Prior period adjustment (note 11)	(704,110)	-	-				
Net position, beginning of period, as restated	27,551,325	28,214,517	25,578,166				
Net position, end of period	$ 29,088,944	28,255,435	28,214,517	*833,509*	*40,918*	*3%*	*0%*

Distinguished Budget Presentation Awards Program
Government Finance Officers Association

Awards Criteria
(and explanations of the Criteria)

#C1. *Mandatory:* The document shall include a table of contents that makes it easier to locate information in the document.

Criteria Location Guide Questions

Table of Contents

1. Is a comprehensive table of contents provided to help the reader locate information in the document?
2. Are all pages in the document numbered or otherwise identified?
3. Do the page number references in the budget or electronic table of contents agree with the related page numbers in the budget or electronic submission?

Make sure every page in the budget document is sequentially numbered.

Explanation

Detailed indices preceding individual sections can be helpful, but they are not a substitute for a single comprehensive table of contents. Care should be taken in developing budget or electronic page number references in the table of contents, so they agree with the related page numbers in the budget document or electronic submission. The use of whole numbers as page numbers is easier to follow.

#P1: The document should include a coherent statement of organization-wide, strategic goals and strategies that address long-term concerns and issues.

Criteria Location Guide Questions

Strategic Goals and Strategies

1. Are non-financial policies/goals included?
2. Are these policies/goals included together in the Budget Message or in another section that is separate from the departmental sections?
3. Are other planning processes discussed?

Look at GFOA best practice on Establishment of Strategic Plans.

Explanation

This criterion relates to the long-term, entity-wide, strategic goals that provide the context for decisions within the annual budget. Consider including action plans or strategies on how the goals will be achieved.

Refer to GFOA's best practice on Establishment of Strategic Plans.

#P2: The document should describe the entity's short-term factors that influence the decisions made in the development of the budget for the upcoming year.

Criteria Location Guide Questions

Short-term organization - wide factors

1. Are short-term factors addressed?
2. Does the document discuss how the short-term factors guided the development of the annual budget?
3. Is a summary of service level changes presented?

Factors should include a mix of operational and financial items.

Explanation

This criterion requires a discussion of the key factors that guide the development of the upcoming year's budget. Factors that might be included relate to: salary and benefit guidelines, fees, capital improvements, program enhancements or reductions, tax levels, use of reserves, service level assumptions, unfunded mandates, economic development strategies, inflation assumptions, and demographic assumptions.

#P3. *Mandatory*: The document shall include a budget message that articulates priorities and issues for the upcoming year. The message should describe significant changes in priorities from the current year and explain the factors that led to those changes. The message may take one of several forms *(e.g., transmittal letter, budget summary section)*.

Priorities and Issues

Criteria Location Guide Questions

1. Does the message highlight the principal issues facing the governing body in developing the budget *(e.g., policy issues, economic factors, regulatory, and legislative challenges)*?
2. Does the message describe the action to be taken to address these issues?
3. Does the message explain how the priorities for the budget year differ from the priorities of the current year?
4. Is the message comprehensive enough to address the entire entity?

Discuss issues and offer solutions.

Explanation

This criterion requires a summary explanation of key issues and decisions made during the budget process. The budget message also should address the ramifications of these decisions. It is recommended that the total amount of the budget be included in the budget message.

#C2. *Mandatory*: The document should provide an overview of significant budgetary items and trends. An overview should be presented within the budget document either in a separate section *(e.g., executive summary)* or integrated within the transmittal letter or as a separate budget-in-brief document.

Budget Overview

Criteria Location Guide Questions

1. Is an overview contained in the budget message/transmittal letter, executive summary, or in a separate budget-in-brief document?
2. Is summary information on significant budgetary items conveyed in an easy to read format?
3. Is summary information on budgetary trends provided?

Present the budget overview in a concise manner.

Explanation

The intent of this criterion is to help readers quickly understand major budgetary items and trends (revenues, expenditures, and capital). Highlighting, indentation, bullet points, outlines, tables, or graphs may help in communicating this information. If a budget-in-brief is published as a separate document, inclusion of easy to read summary financial information in the main budget document is encouraged.

Refer to GFOA's best practice on Effective Presentation of the Budget Document.

#O1. *Mandatory:* The document shall include an organization chart(s) for the entire entity.

Criteria Location Guide Question

Organization Chart

1. Is an organization chart provided which shows the entire entity?

Make sure the organization chart is legible.

Explanation
This criterion requires that an organizational chart be presented only for the overall entity. Organizational charts for individual units are not required. When organizational charts are provided for individual units within the entity, those charts should be presented in such a way as to underscore the link between the individual unit and the overall entity.

#F1: The document should include and describe all funds that are subject to appropriation.

Fund Descriptions and Fund Structure

Criteria Location Guide Questions
1. Is a narrative or graphic overview of the entity's budgetary fund structure included in the document?
2. Does the document indicate which funds are appropriated? (Other funds for which financial plans are prepared also may be included in the document.)
3. Does the document include a description of each individual major fund included within the document?
4. If additional or fewer funds are included in the audited financial statements, does the document indicate this fact?

An 'organization chart' of the government's funds is useful.

Explanation
Showing an entity's budgetary fund structure is essential for understanding its financial configuration. An overview of the budgeted funds should be included in the document. This overview should include each major fund's name and either (1) an indication of whether the fund is a governmental, proprietary, or fiduciary fund OR (2) an indication of the fund type of each fund *(e.g., general, special revenue, enterprise fund).* Any fund whose revenues or expenditures, excluding other financing sources and uses, constitute more than 10% of the revenues or expenditures of the appropriated budget should be considered a major fund for this purpose. The entity needs to identify its major funds.

#O2: The document should provide narrative, tables, schedules, or matrices to show the relationship between functional units, major funds, and nonmajor funds in the aggregate.

Department/ Fund Relationship

Criteria Location Guide Questions
1. Is the relationship between the entity's functional units, major funds, and nonmajor funds in the aggregate explained or illustrated?

The department/fund relationship can be shown through the use of a matrix.

Explanation
Since most entities use more than one way of classifying financial and operational information, this criterion requires an explanation or illustration of the relationship between functional units, major funds, and nonmajor funds in the aggregate. A matrix is one way to show this relationship.

#F2*:* The document shall explain the basis of budgeting for all funds, whether cash, modified accrual, or some other statutory basis.

Basis of Budgeting

Criteria Location Guide Questions
1. Is the basis of budgeting defined (*eg., modified accrual, cash, or accrual)* for all funds included in the document?
2. If the basis of budgeting is the same as the basis of accounting used in the entity's audited financial statements, is that fact clearly stated?

3. If the basis of budgeting is not the same as the basis of accounting used in the entity's audited financial statements, are the differences described?

Make sure exceptions between basis of budgeting and basis of accounting are noted.

Explanation

The document should clearly identify the basis of budgeting (*e.g., modified accrual, cash, accrual)* employed by the entity for each category of funds represented (governmental, proprietary, and fiduciary). If the basis of budgeting is identical to the basis of accounting used in the audited fund financial statements in the basic financial statements for some or all categories of funds, that fact should be clearly stated. Differences between the basis of budgeting and the basis of accounting should be identified.

For examples of differences between the basis of budgeting and the basis of accounting, refer to GFOA's best practice, Basis of Accounting versus Budgeting Basis.

#P4. *Mandatory:* The document should include a coherent statement of entity-wide long-term financial policies.

Financial Policies

Criteria Location Guide Questions

1. Is there a summary of financial policies and goals?
2. Do the financial policies include the entity's definition of a balanced budget?
3. Are all financial policies presented in one place?

Look at GFOA best practice on Adoption of Financial Polices.

Explanation

This criterion requires a discussion of the long-term financial policies. Financial policies that should be included (but not limited to) and formally adopted relate to: (1) financial planning policies, (2) revenue policies, and (3) expenditure policies. The entity should adopt a policy(s) that defines a balanced operating budget, and indicate whether the budget presented is balanced. The entity should adopt a policy(s) that supports a financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets, budget policies, and cash management and investment policies. The entity should adopt a policy(s) to inventory and assess the condition of all major capital assets. Revenue policies should consist of diversification, fees and charges, and use of one-time and unpredictable revenues. Expenditure policies should consist of debt capacity, issuance, and management, fund balance reserves, and operating/capital budget versus actual monitoring.

Refer to GFOA's best practices on (1) Adopting Financial Policies, (2) Long-Term Financial Planning, (3) Multi-Year Capital Planning, (4) Establishing Government Charges and Fees, (5) Debt Management, (6) Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund, (7) Determining the Appropriate Level of Working Capital in Enterprise Funds (8) Creating a Comprehensive Risk Management Program, and (9) Establishing an Effective Grants Policy.

#P5. *Mandatory*: The document shall describe the process for preparing, reviewing, and adopting the budget for the coming fiscal year. It also should describe the procedures for amending the budget after adoption.

Budget Process

Criteria Location Guide Questions

1. Is a description of the process used to develop, review, and adopt the budget included in the document?

2. Is a budget calendar provided to supplement (not replace) the narrative information on the budget process?
3. Is a discussion of how the budget is amended provided in the budget document available to the public (including the budgetary level of control)?

Include the public in your budget process.

Explanation

This criterion requires a concise narrative description of the budget process, including an explanation of relevant legal or policy requirements. This description should include the internal process to prepare the budget, the opportunities for public input, and the actual adoption of the budget. A budget calendar should be included (noting both key operating and capital dates), although its format may vary. Inclusion of dates in the narrative description of the budget process will not satisfy this criterion. The process for amending the budget after adoption should be covered. The description of the amendment process should identify the level at which the governing body must approve changes.

Refer to GFOA's best practice on Public Participation in Planning, Budgeting, and Performance Management as a guide on public involvement in the budget process.

#F3. *Mandatory:* The document shall present a summary of major revenues and expenditures, as well as other financing sources and uses, to provide an overview of the total resources budgeted by the organization.

Consolidated Financial Schedule

Criteria Location Guide Questions

1. Does the document include an overview of revenues and other financing sources and expenditures and other financing uses of all appropriated funds?
2. Are revenues and other financing sources and expenditures and other financing uses presented either (1) together in a single schedule OR (2) in separate but adjacent/sequential schedules OR (3) in a matrix?
3. Are revenues presented by major type in this schedule *(e.g., property taxes, intergovernmental, sales taxes, fees and charges)?*
4. Are expenditures presented by function, organizational unit, or object in this schedule? (For funds other than the main operating fund of the entity, a presentation by fund normally would satisfy this requirement.)

Break out revenues by type and expenditures by function, organizational unit, or object.

Explanation

This criterion requires a **summary** of the revenues and other financing sources and expenditures and other financing uses of all appropriated funds in one place in the budget document. Other funds *may* be included in this schedule, but appropriated funds *must* be included. Both revenues and other financing sources and expenditures and other financing uses must be presented either (1) together in a single schedule OR (2) in separate but adjacent/sequential schedules OR (3) in a matrix. Merely showing fund totals in a summary schedule is not proficient.

Revenues should be presented by type *(e.g., property tax, sales tax, fees and charges, intergovernmental)* for all appropriated funds in total. A more detailed presentation that also shows revenues by major fund is encouraged, but not required. Expenditures should be presented either by function, organizational unit or object.

#F4. *Mandatory:* The document must include summaries of revenues and other financing sources, and of expenditures and other financing uses for the prior year

actual, the current year budget and/or estimated current year actual, and the proposed budget year.

Criteria Location Guide Questions

Three (Four) Year Consolidated and Fund Financial Schedules

1. For annual budgets, are revenues and other financing sources and expenditures and other financing uses for the prior year, the current year, and the budget year presented together on the same schedule(s) or on schedules presented on adjacent/sequential pages?
2. Is this information presented for the appropriated funds in total (or for the entity as a whole if no appropriated funds are included)?
3. Is this information also presented at a minimum for each major fund and for other (i.e. nonmajor) funds in the aggregate (or for each significant fund and other funds in the aggregate if no appropriated funds are included)?
4. For biennial budgets, are revenues and other financing sources and expenditures and other financing uses for the prior year, the current year, and both budget years presented together on the same schedule(s) or on separate schedules presented on adjacent/sequential pages?

Break out revenues by type and expenditures by function, organizational unit, or object for the all funds total and individual funds.

Explanation

This criterion requires a schedule(s) that includes both revenues and other financing sources and expenditures and other financing uses for at least three budget periods (prior year actual, current year, and budget year). The data for the prior year should be the actual revenues and expenditures. However, the entity may choose whether to use current year budget and/or estimated figures. Alternately, the document may include both the current year budget and the current year estimated amounts. Also, the document may include a discussion of any changes to the budget for the current year. However, such a discussion is not required. Any fund whose revenues or expenditures, excluding other financing sources and uses, constitute more than 10% of the revenues or expenditures of the appropriated budget should be considered a major fund. Of course, information for other funds also may be presented. Information for individual major funds, nonmajor funds in the aggregate, and the entity as a whole may be presented on a single schedule OR on separate schedules. Regardless of the format selected, the information for both revenues and expenditures must be included (1) on the same schedule(s) OR (2) on schedule(s) presented on adjacent/ sequential pages. As in the prior criterion, revenues should be presented by type *(e.g., property tax, sales tax, fees and charges, intergovernmental)* and expenditures should be presented either by function, organizational unit or object.

Entities with biennial budgets should present data for four years - one prior year actual, current year budget and/or estimated amount, and budget for both years of the biennium.

#F5. ***Mandatory:*** **The document shall include projected changes in fund balances, as defined by the entity in the document, for appropriated governmental funds included in the budget presentation (fund equity if no governmental funds are included in the document).**

Criteria Location Guide Questions

Fund Balance

1. Does the document include the entity's definition of "fund balance" (or of "fund equity" if no governmental funds are included in the entity - frequently the noncapital portion of net assets)?
2. Is the fund balance (equity) information presented for the budget year?

3. Is there a schedule showing (1) beginning fund balances, (2) increases and decreases in total fund balances (reported separately), and (3) ending fund balances for appropriated governmental funds?
4. Is this information presented at a minimum for each major fund and for nonmajor governmental funds in the aggregate?
5. If fund balances of any major fund or the nonmajor funds in the aggregate are anticipated to increase or decline by more than 10%, does the document include a discussion of the causes and/or consequences of these changes in fund balance?
6. If an entity has no governmental funds, is the change in the fund equity presented for (1) the entity as a whole, (2) the main operating fund, and (3) each significant fund?
7. If an entity has no governmental funds and the fund equity of any significant fund or other funds in the aggregate is anticipated to change by more than 10%, does the document include a discussion of the causes and/or consequences of any change in fund equity that is greater than 10% in either a significant fund or other funds in the aggregate?
8. For biennial budgets is the change in fund equity presented separately for both years of the biennium?

Discuss fund balance changes over 10%.

Explanation

This criterion requires that beginning and ending fund balances, as defined by the entity in the budget document, be shown for the budget year, as well as revenues, expenditures, and other financing sources/uses. This information must be provided for each major fund and for the nonmajor governmental funds in the aggregate. The information may be included on the schedule(s) with the three-year data or may be presented on a separate schedule(s). Both the beginning and ending fund balances must be clearly labeled. If the entity budgets on a cash basis, the schedule may show beginning and ending cash rather than fund balance. If the fund balances of any major fund or the nonmajor funds in the aggregate are expected to change by more than 10%, the changes should be discussed in the budget message/transmittal letter or at the bottom of the schedules identifying the change. If the ending fund balances are greater than the amount or percentage that the financial policies require to be set aside, the entity is encouraged to state that fact. Changes in fund equities for entities with no governmental funds should be reported.

Refer to GFOA's best practice on Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund and Determining the Appropriate Level of Working Capital in Enterprise Funds.

#F6. *Mandatory:* The document shall describe major revenue sources, explain the underlying assumptions for the revenue estimates, and discuss significant revenue trends.

Criteria Location Guide Questions

Revenues

1. Are individual revenue sources described?
2. Do the revenue sources that are described represent at least 75 percent of the total revenues of all appropriated funds?
3. Are the methods used to estimate revenues for the budget year described *(e.g., trend analysis, estimates from another government or consulting firm)?*
4. If revenues are projected based on trend information, are both those trends and the underlying assumptions adequately described?

Trend graphs can be useful in revenue analysis.

Explanation

This criterion requires that the major revenues of the appropriated funds in the aggregate be identified and described. If an outside source *(e.g., another government or consulting firm)* provides an estimate of the revenue for the budget year, that fact must be clearly stated. If the entity uses trend analysis to project particular revenue, a discussion of the revenue trend is required in addition to any schedules or graphs depicting the revenue trend. If the projections are based on trend analysis, the discussion must identify factors that affect the trend, such as changes in the local economy, a new housing development, or fee increases. Do not just focus on General Fund revenues.

Refer to GFOA's best practice on Financial Forecasting in the Budget Preparation Process.

#F7: The document should explain long-range financial plans and its effect upon the budget and the budget process.

Long-range Financial Plans

Criteria Location Guide Questions

1. Are long-range financial plans identified?
2. Do your long-range financial plans extend out at least two years beyond the budget year?
3. Is there a concise explanation or illustration of the linkage between the entity's long-range financial plans and strategic goals?

Include long-range financial plans that extend beyond the budget year.

Explanation

This criterion requires the identification of long-range financial plans that extend beyond the budget year. The impacts of the long-range financial plan upon the current budget and future years should be noted.

Refer to GFOA best practices on (1) Long-Term Financial Planning, (2) Establishment of Strategic Plans, (3) Budgeting for Results and Outcomes, and (4) Multi-Year Capital Planning.

#F8. *Mandatory*: The document should include budgeted capital expenditures, whether authorized in the operating budget or in a separate capital budget.

Capital Expenditures

Criteria Location Guide Questions

1. Does the document define "capital expenditures"?
2. Does the document indicate the total dollar amount of capital expenditures for the budget year (both budget years for biennial budgets)?
3. Are significant nonrecurring capital expenditures described along with dollar amounts? (Information in a separate CIP document does not satisfy this criterion.)
4. If the entity has no significant nonrecurring capital expenditures, is that fact clearly stated in the document?

Include discussion on major capital projects.

Explanation

This criterion does not mandate any particular definition of "capital expenditures," only that whatever definition is being used by the entity be disclosed.

After defining *capital expenditures*, the entity should indicate the total dollar amount of such expenditures for the budget year. The entity is encouraged, but not required, to provide a summary of capital expenditures by major project, type, fund, or user.

Recurring capital expenditures are those that 1) are included in almost every budget and 2) will have no significant impact on the operating budget. For example, the construction of a new school building, because of its significant impact, would almost always be considered nonrecurring, even if such construction is a frequent occurrence. If the entity has only insignificant recurring capital expenditures, the document should clearly state that fact.

If the entity has any significant, nonrecurring capital expenditures, the document should describe these items (i.e. indicate the project's purpose and funding sources) and indicate the amount appropriated for the project during the budget year(s). Also, the document should include the amount appropriated for significant, nonrecurring capital expenditures in the budget year.

Refer to GFOA best practices on (1) Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets, (2) Determining the Estimated Useful Lives of Capital Assets, (3) Incorporating a Capital Project Budget in the Budget Process, (4) Multi-Year Capital Planning and (5) Presenting the Capital Budget in the Operating Budget Document.

#F9: The document should describe if and to what extent significant nonrecurring capital expenditures will affect the entity's current and future operating budget and the services that the entity provides.

Criteria Location Guide Questions

Impact of Capital Improvements on Operating Budget

1. Are anticipated operating costs associated with significant nonrecurring capital expenditures described and quantified *(e.g., additional personnel costs, additional maintenance costs, or additional utility costs)?* (Information in a separate CIP document does not satisfy this criterion.)
2. Are anticipated savings or revenues expected to result from significant nonrecurring capital expenditures described and quantified *(e.g., reduced utility costs, lower maintenance costs)?*

Quantify and discuss operating impacts.

Explanation

This criterion asks for the identification of specific significant financial impacts upon current and future years that are likely to result from significant nonrecurring capital expenditures (other than the cost of the improvements themselves). The entity may make its own determination of what is "significant." However, some examples of significant costs are those that (1) would require an increase in the tax rate OR (2) would result in a reduction in spending elsewhere in the budget OR (3) would require additional staff. Additional anticipated revenues and expenditure reductions also should be briefly described and quantified. Concepts like net present value, return on investment, or payback period may be used.

Identification of the anticipated non-financial impact of significant nonrecurring capital expenditures on services is encouraged. Examples include a cleaner environment, improved response time by public safety employees, smaller class sizes in schools, and access to public buildings and public transportation by all citizens.

#F10. *Mandatory:* The document shall include financial data on current debt obligations, describe the relationship between current debt levels and legal debt limits, and explain the effects of existing debt levels on current operations.

Criteria Location Guide Questions

Debt

1. If the entity has legal debt limits:
   - Are debt limits described?
   - Are the amounts of debt limits expressed in terms of total dollars, millage rates or percentages of assessed value?
   - Are the amounts of debt subject to debt limits identified in the same terms used to describe the debt limits themselves?
2. If the entity has no legal debt limits, is that fact clearly stated within the budget document?
3. If the entity does not have and does not intend to issue debt, is that fact clearly stated?
4. Is the amount of principal and interest payments for the budget year (two years for biennial budgets) shown for each major fund (for appropriated funds), for each significant unappropriated fund and for other funds in the aggregate?

Explanation

Debt to maturity schedules breaking out principal and interest can be useful.

Entities should describe their legal debt limits. The legal debt limits may be expressed in terms of total dollars, millage rates, or percentages of assessed value. A graph may supplement the calculation, but may not be a substitute for the calculation. If an entity has no legal debt limits, that fact should be clearly stated within the budget document. The budget document may omit the debt limits requirements only if the entity (1) has no debt, (2) has no intention of issuing debt, and (3) states this fact in the budget document.

The document should indicate the impact of debt on the current budget by indicating the total amount of principal and interest payments to be paid during the year for each major appropriated fund and for each significant unappropriated and for other funds in the aggregate (two years for biennial budgets). If the entity has variable rate debt or a balloon payment that could significantly alter debt levels in the future, the entity is encouraged to disclose that fact. A repayment schedule may be presented, but is not required. The entity is encouraged to discuss coverage requirements and actual coverage for revenue backed debt. An entity may wish to discuss debt that it anticipates issuing separately from its discussion of outstanding debt. An entity should consider concisely describing the purpose and type of individual debt obligations.

#O3. *Mandatory:* A schedule or summary table of personnel or position counts for prior, current and budgeted years shall be provided.

Criteria Location Guide Questions

Position Summary Schedule

1. Is a summary table of position counts provided for the entire entity?
2. Does the table include the prior year, the current year, and budget year position counts?
3. Are changes in staffing levels for the budget year explained?
4. If there are no changes in staffing levels, is that item noted?

Position counts are frequently presented showing individual department totals summing to a grand total.

Explanation

This criterion requires a presentation of position counts or full time equivalents (FTEs) within the entity. Presentation may be by position and/or by summaries of positions. Position summaries within individual departments may supplement, but not be a substitute for, the position counts on the consolidated schedule. If presented, position counts on the departmental summaries should tie to the consolidated position count schedule for the entity as a whole. Staffing level changes must be explained. If there are no staffing level changes, then that fact must be noted.

#O4. *(Mandatory)*: The document shall describe activities, services or functions carried out by organizational units.

Criteria Location Guide Questions

Department Descriptions

1. Does the document clearly present the organizational units *(e.g., divisions, departments, offices, agencies, or programs)*?
2. Does the document provide descriptions of each organizational unit?

Discuss major financial or program changes occurring in the different departments.

Explanation

This criterion requires a clear presentation of the organizational units within the budget document. A narrative description of the assigned services, functions, and activities of organizational units should be included. The presentation of relevant additional information should be included *(e.g., shift in emphasis or responsibilities or major changes in costs).*

Refer to GFOA's best practice on Departmental Presentation in the Operating Budget Document.

#O5: The document should include clearly stated goals and objectives of organizational units *(e.g., departments, divisions, offices or programs).*

Criteria Location Guide Questions

Unit Goals and Objectives

1. Are unit goals and objectives identified?
2. Are unit goals clearly linked to the overall goals of the entity?
3. Are objectives quantifiable?
4. Are timeframes on objectives noted?

Consider a matrix linking department goals to overall entity goals.

Explanation

This criterion requires that unit goals and objectives be clearly identified. The relationship of unit goals to the overall goals of the entity should be apparent (perhaps, in the form of a matrix). For purposes of this criterion, goals are long-term and general in nature, while objectives are more short-term oriented and specific. Note when goals and objectives are expected to be accomplished.

#O6: The document should provide objective measures of progress toward accomplishing the government's mission as well as goals and objectives for specific units and programs.

Criteria Location Guide Questions

Performance Measures

1. Are performance data for individual departments included in the document?
2. Are performance data directly related to the stated goals and objectives of the unit?
3. Do performance measures focus on results and accomplishments *(e.g., output measures, efficiency and effectiveness measures)* rather than inputs *(e.g., dollars spent)?*

Link performance measures to unit goals and objectives and include efficiency and effectiveness measures.

Explanation

Performance measures should include the outputs of individual units and provide a meaningful way to assess the effectiveness and efficiency of those units. The measures should be related to the mission, goals, and objectives of each unit. Include information for at least three years (the prior year actual, current year estimate or budget, and budget year).

Refer to GFOA's best practice on A Systematic Approach to Managing Performance and Performance Management for Decision Making.

#C3: The document should include statistical and supplemental data that describe the organization, its community, and population. It should also furnish other pertinent background information related to the services provided.

Criteria Location Guide Questions

Statistical/ Supplemental Section

1. Is statistical information that defines the community included in the document (*e.g., population, composition of population, land area, and average household income*)?
2. Is supplemental information on the local economy included in the document *(e.g., major industries, top taxpayers, employment levels, and comparisons to other local communities*)?
3. Is other pertinent information on the community *(e.g., local history, location, public safety, education, culture, recreation, transportation, healthcare, utilities, and governmental structure)* included in the document?

Do not just copy the CAFR statistical/supplemental section into the budget document.

Explanation

Background information should be included in the budget in the form of statistical and supplementary data, either in a separate section or throughout the document. The goal is to provide a context for understanding the decisions incorporated into the budget document. The presentation should include factors that will affect current or future levels of service *(e.g., population growth, economic strength in the region, or a change in the size of the school age population).*

Refer to GFOA's best practice on The Statistical/Supplemental Section of the Budget Document for information that should be included as part of this discussion.

#C4: A glossary should be included for any terminology (including abbreviations and acronyms) that is not readily understandable to a reasonably informed lay reader.

Criteria Location Guide Questions

Glossary

1. Is a glossary that defines technical terms related to finance and accounting, as well as non-financial terms related to the entity, included in the document?
2. Are acronyms or abbreviations used in the document defined in the glossary?
3. Is the glossary written in non-technical language?

Make sure acronyms and non-financial terms are also included.

Explanation

The use of technical terms and acronyms ought to be kept to a minimum, to enhance the value of the document to the majority of stakeholders. When technical terms and acronyms are used, they should be clearly and concisely described in the glossary.

#C5: Charts and graphs should be used, where appropriate, to highlight financial and statistical information. Narrative interpretation should be provided when the messages conveyed by the graphs are not self-evident.

Charts and Graphs

Criteria Location Guide Questions

1. Are charts and graphs used in the document to convey essential information (*e.g., key policies, trends, choices and impacts*)?
2. Do the graphics supplement the information contained in the narratives?

Including captions with graphs can be helpful.

Explanation

This criterion requires that graphics be used to communicate key information in the budget document. Graphics should enhance the budget presentation, and clarify significant information. The entity determines the most effective format to present graphic information. Graphics may be consolidated or included throughout the document. Normally, narratives should accompany the graphs. Graphs can be used for such topics as revenues, expenditures, fund balances, staffing, economic trends, capital expenditures, service levels, performance measures, or general statistical information. Originality is encouraged, but not at the expense of clarity and consistency. Consider using captions to explain the significance of graphs.

#C6: The document should be produced and formatted in such a way as to enhance its understanding by the average reader. It should be attractive, consistent, and oriented to the reader's needs.

Understand-ability and Usability

Criteria Location Guide Questions

1. Is page formatting consistent?
2. Are the main sections of the document easily identifiable?
3. Is the level of detail appropriate?
4. Are text, tables, and graphs legible?
5. Are budget numbers in the document accurate and consistent throughout the document?

Make sure the document is easy to read.

Explanation

The goal of this criterion is to make sure that the document itself contributes to the effectiveness of the communication to readers. Sequential page numbering throughout the document is encouraged. Budget numbers (both financial and operational) should be accurate and consistent throughout the document. Put similar topics in the same section.

Refer to GFOA's best practice on Making the Budget Document Easier to Understand and Presenting Official Financial Documents on Your Government's Website.