



AMENDED STAFF REPORT (ISSUED 9-12-16)

September 15, 2016

TO: LOCSD Board of Directors

FROM: Peter J. Kampa, Interim General Manager

SUBJECT: **Agenda Item 11D – 09/15/2016 Special Board Meeting**
Receive Financial Report for Period Ending in June 30, 2016

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RECOMMENDED MOTION:

Staff recommends that board move to receive and file the financial report for period ending in June 30, 2016.

BACKGROUND:

We are proud to report that our District Accountant has as of this meeting brought our financial statements and related reports into an updated condition. All bank account reconciliations are complete and up to date, and we are prepared for the completion of the 2015/16 fiscal year audit. Included with this agenda item is a report providing the full line-item detail of the actual, 2015-16 budgeted and the difference between actual and budgeted revenue and expenses. I apologize in advance for the longer than anticipated narrative regarding revenue and expenses, but the Board's understanding of the finances of the District is of utmost importance and the information has not been accurately and comprehensively presented in some time.

This "budget to actual" or "profit and Loss" report for each fund covers the period of July 1, 2015 through June 30, 2016. This report was generated using the raw data as compiled by our Accountant. Ultimately the future monthly reports will be a summarized reporting version similar to the adopted budget, but we simply did not have the time to complete the formatting on this particular report in advance of the Board packet distribution. Below is an explanation of the report content and description of an initial cursory evaluation of the budget to actual performance.

Budget to Actual Report Layout

- 2015-2016 Actual column are the amounts of revenue received and expenditures made through the end of the fiscal year
- 2015-2016 Budget column are listed as they were approved by the Board in August 2015
- Remaining Budget column lists:
 - Revenue – Revenue over the amount budgeted in (parenthesis) and revenue under the amount budgeted in whole numbers.
 - Expenses - Expenses over the amount budgeted are shown in whole numbers and expenses under budget are shown in (parenthesis)
- The net revenues over expenditures shown at the bottom of each fund is the total of all revenues minus the total of all expenses with numbers in (parenthesis) meaning total revenue was less than total expenses.

Report Highlights

Fund 100 – Administration: Salaries appear to have been budgeted on the low side, as the staff General Manager was not on payroll for six months of the year and the Accountant only worked eight of the 12-month period. Unanticipated expenses for settlement with the prior manager and severance pay for the Accountant resulted in the fund ending the year approximately \$60,461 over budget. This overage is then

distributed to the various service funds, which results in budget exceedance there as well.

Fund 200 – Bayridge: The approved budget estimated that annual revenue would be \$7,610 short of covering expenses. Due primarily to the (over budget) cost of making improvements to the collection system as required by the County, even with the \$125,000 transfer from Water as shown in the report, the fund ended the year with revenue \$24,441 short of covering expenses. The impact of back to back years of revenue shortfall is shown on the attached Fund Balance Recap, where staff recommends that in September 2017, after the close of this fiscal year, that the Board adopt a revised resolution increasing the loan from the Water Fund by approximately \$50,000, to \$175,000 total.

Fund 301 – Fire: The report shows revenue shortfalls in Accounts 4035 and 4050 caused by delays in receiving tax expenditure reports from the county. Pursuant to an agreement between the District and County, portions of the property and special taxes collected on behalf of the District by the County are held in the county treasury to pay the Calfire Schedule A contract payments. The shortfall in revenue is offset by the same amount of lower expense with the Schedule A Charges shown in Account 7500 currently showing \$853,587 under budget. The tax revenue and Schedule A payments will be received soon and the revenue and expense will offset, leaving the bottom line total close to what is shown in the report. Staff shift coverage costs were under budget, while the overtime costs were over budget; indicative of low staffing levels. Overall, Fire ended the year with revenue over expenses of approximately \$33,430. Please note that the minimum annual Equipment Replacement Reserve transfer is \$72,000, so in 2015/16, that reserve alone will be only half funded and no other reserves will be funded, unless Board action transfers Fund Balance as shown in the Fund Balance Recap sheet.

Fund 400 – Vista de Oro: Salary and associated benefits costs were lower than budget due to staff assignment in other service areas. Legal services related to the transfer of the system to the County was one of the only accounts over budget; however the 2015/16 budget was adopted with a \$27,473 deficit, and therefore the fact that we finished the year \$16,829 expenses over revenue, the fund was actually “under budget”. In reality, the \$16,829 will be deducted from the remaining fund balance, and if the Board approves the use of the Internal loan reserve in a subsequent action, we will likely finish the fiscal year borrowing \$10,400 from the water fund. The original loan from the water fund was approved at \$30,000, so we will actually be borrowing less than initially anticipated.

Fund 500 – Water: We achieved only 91% of the total revenue budgeted, with the largest deficit in residential water sales, which was 26% less than budget; or \$465,440 short due to continued water conservation. Residential multi-family and commercial each were over 200% of budget, which is normal due to the fact that non-residential customers do not have as much control over water use, especially outside as residential do. We also sold irrigation water to the schools when during budget preparation, it was anticipated that the schools would use recycled water for irrigation. While our expenses for system equipment repair and replacement, meter replacements, insurance and legal services for the ISJ were over budget, we were under budget in more than offsetting amounts in fuel and vehicle repair, water conservation services, general legal, engineering, water testing costs, electricity and (brine) disposal services. Overall, we ended the year \$128,716 revenue over expenses. However, once reserves are funded for the year, the fund balance carryover will be minimal.

Fund 602 – Wastewater: All revenues associated with wastewater are collected on the tax rolls by the county, and debt service payments and reserve requirements met through payments from the county to the Bond Trustee, US Bank who then pays the principle and interest on the (bonded) debt service. Although it appears that we finished the year with over \$70,000 in revenue over expenses, the required bond reserve payments have not yet been documented, which will for the most part balance the budget. Please note that the cash flow is adequate to cover the Administrative allocation of \$9794, and we will be submitting the 2016/17 administrative expense allocated to Wastewater to the county as an expense to be reimbursed from the assessment proceeds. Please note that the \$17,578 total of the property tax costs, consulting fees, legal fees and bank service charges are eligible expenses for reimbursement to the District, funded with the wastewater administrative charge of up to \$50 per parcel per year. As discussed with the Board this spring and confirmed with our assessment administrator, our administrative overhead costs are also reimbursable from the admin charge.

Fund 800 – Drainage: Revenue and expenses followed the approved budget, ending the year with revenue over expenses by \$12,403, which adds directly to the Drainage fund balance as shown in the Fund Balance Recap sheet. The Drainage fund is fairly healthy and even with an estimated \$134,000 operating budget deficit this fiscal year, a \$176,730 fund balance will remain.

Fund Balance Recap

Completed late Friday, September 10 the attached Fund Balance Recap Report will be very helpful in the Board's understanding of restricted and unrestricted amounts of cash available in each of the District's funds. The first sheet provides current balances of each fund as of the 2014/15 audit, makes adjustments for the fiscal year end 2016 and 2017 and identifies restricted reserve balances estimated through the end of fiscal year 2017. With the fund balances and restricted reserves identified, the "unrestricted" fund balance is calculated. This unrestricted cash is funding available over and above the service operating costs and amounts required to be set aside in the District reserve policy.

At the bottom of Page 1 of the report are several recommended Board actions to clarify its financial policy and to accurately and clearly identify reserves and uses of funds. The most important to note is the fact that unrestricted cash is available in the amount of \$470,710 in Fire and \$1,787,078 in Water; and in both funds the reserve levels are far below the maximum level set by the Board. It is recommended that the Board consider allocating the unrestricted fund balance to offset large reserve transfers in these funds in 2016/17, with the remainder to increase the level of Capital Facilities or Equipment Replacement reserve funding. The Fund Balance also estimates the amount of loan necessary to fund the shortfalls in Bayridge and Vista de Oro. Staff recommends that the Board wait for the close of the 2016/17 fiscal year to determine the most accurate final balance of the loan repayment to be funded by continuing the assessments for several more years, to pay back the water fund.

Reserve Statement

The attached updated Reserve Statement details the level of reserves accumulated, deposited and used since the reserve funds were established in the 2012/13 fiscal year. You can see that in many years, expenses and revenue did not allow for the full funding of reserves as mandated by the policy. Please note that the reserves are typically funded in any fiscal year after the close of the prior fiscal year, and at the maximum level possible given revenue over expenses. Also important to note is the fact that the reserve policy allows for the increase of the maximum funding levels, which has not in the past been done. In October or November, staff will present the recommended revised reserve policies with amounts reflecting the increase in CPI, in addition to resolutions transferring to the reserves; which should be done annually for accounting clarity.

I have also inserted a brief description of the annual amount of reserve to be deposited, and maximum funding target or each established reserve for which there exists such policy guidance. Several color coded notes have been inserted at the bottom of the statement to recommend policy updates and other Board action to clarify existing reserve policies.