

NOVATO SANITARY DISTRICT

November 5, 2012

The Finance Committee of Novato Sanitary District will hold a meeting at 2:30 PM, Monday, November 5, 2012, at the District offices, 500 Davidson Street, Novato.

AGENDA

1. **AGENDA APPROVAL:**
2. **PUBLIC COMMENT (PLEASE OBSERVE A THREE-MINUTE TIME LIMIT):**

This item is to allow anyone present to comment on any subject not on the agenda, or to request consideration to place an item on a future agenda. Individuals will be limited to a three-minute presentation. No action will be taken by the Board at this time as a result of any public comments made.

3. **FINANCIAL POLICIES:**
 - a. Review and make recommendations on the Investment Policy.
 - b. Staff report on financial operating procedures.
4. **2011-12 AUDIT:**
 - a. Progress report on 2011-12 Audit.
5. **ADJOURNMENT:**

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the District at (415) 892-1694 at least 24 hours prior to the meeting. Notification prior to the meeting will enable the District to make reasonable accommodation to help ensure accessibility to this meeting.

Materials that are public records and that relate to an open session agenda item will be made available for public inspection at the District office, 500 Davidson Street, Novato, during normal business hours.

NOVATO SANITARY DISTRICT

MEMORANDUM

Date: November 2, 2012
To: Finance Committee
From: Beverly James, Manager-Engineer
Subject: Investment Policy

Background:

Novato Sanitary District has had an Investment Policy in place for many years. It is reviewed and updated annually in accordance with State law. It was most recently reviewed and approved at the Board meeting on October 22, 2012. A copy of the recently approved policy is attached. Member Mariani expressed an interest in reviewing the allowable investments. In particular, she suggested that the District consider including the Marin County Investment Pool as an approved investment option.

It should also be noted that Novato Sanitary District's current Investment Policy includes procedures that are more appropriately addressed in the Cash Receipts/Accounts Receivable or Electronic Banking Procedures.

Marin County Investment Pool

The County Treasurer's of San Diego, Riverside, and Solano Counties made a presentation on "Local Investing for Special Districts through County Treasurer-Tax Collectors" at the CSDA conference in September. A copy of the presentation is attached. The County Investment Pools are required to be managed very conservatively.

The Marin County Investment Pool was rated AAA by Fitch in October 2010. A copy of the report is also attached. More recent information has been requested but not yet received.

General Editing

The Investment Policy currently includes summaries of the financial procedures. I suggest that staff edit the policy so that it does not include procedures following the format of the attached Sample "Investment of District Funds Policy" from CSDA.

Novato Sanitary District
STATEMENT OF INVESTMENT POLICY
Adopted October 22, 2012

The Statement of Investment Policy for Novato Sanitary District includes the revised California Government Code Section 53600 effective January 1, 1996.

Funds Management

This investment policy applies to all financial assets of Novato Sanitary District, including Operating Funds, Capital Improvement Funds and Bond Funds.

Regular Warrants Account: As cash is received, it is deposited in the District's Money Market Checking Account with Westamerica Bank. Cash on hand is reviewed daily and all inactive or reserve funds above the minimum balance are wire transferred periodically to the State Local Agency Investment Fund (LAIF), or invested locally in certificates of deposit. When the District writes checks, for whatever purpose, funds are withdrawn from LAIF to cover the checks written.

Payroll Account: The District's payroll is prepared in-house. All pay checks and pay vouchers (for direct deposit) are processed through the District's Payroll Account with Westamerica Bank. After the checks and vouchers are reconciled, funds to cover payroll are transferred from the Operating Account to the Payroll Account.

Petty Cash Account: The District maintains a Petty Cash account with a balance not to exceed \$1,000.00. This account is for small purchases.

~~SRF Project Account~~ Capital Projects Account: This account is used to track capital project expenditures throughout the year. Any excess balance above the minimum balance is wire transferred to LAIF. When the District writes checks for project expenses funds are withdrawn from LAIF to cover the checks written. Funds are transferred from the regular warrants account after this account has been funded by LAIF, for operating and project expenses.

ARRA Grant Project Account: This account is established to receive grant funds under the American Reinvestment and Recovery Act for partial financing of the District's Recycled Water Project. The project is part of the regional recycled water project administered by the North Bay Water Reuse Authority.

Funds not included in the policy include deferred compensation funds since the assets of the plan are held for the exclusive benefit of plan participants and their beneficiaries and the individual plan participants are responsible for the investment of these accounts.

Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard as stated in California Government Code (CGC) Section 53600.3 and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Objectives

As specified in CGC Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
2. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.
3. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority

Authority to manage the investment program is derived from CGC Sections 53600, et seq. Management responsibility for the investment program is hereby delegated to the Treasurer, Beverly B. James, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The following employees are authorized to telephone instructions for deposits and withdrawals from the District bank account to the State Treasurer and vice versa:

Beverly B. James, Manager-Engineer
~~June Brown~~ Laura M. Creamer, Finance Officer

Transfers between the District's five Westamerica Bank accounts may be made electronically by Beverly James, Manager-Engineer and Laura Creamer, Finance Officer. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provisions of CGC 53600.3, the Treasurer is a trustee and a fiduciary subject to the prudent investor standard. In addition, the District maintains a public officials' surety bond in the amount of \$200,000.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Authorized Financial Institutions and Dealers

The Treasurer will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Treasurer shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Treasurer shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the District's account with that firm has reviewed the District's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the District that are appropriate under the terms and conditions of the Investment Policy.

Designated depositories for the deposit of inactive funds are:

Local Banks: Bank of America, Wells Fargo Bank and Westamerica Bank.

Local Savings and Loan Associations: Citbank and Chase Bank.

State Treasurer's Local Agency Investment Fund (LAIF). The LAIF is made up of pooled funds from California local agencies which are invested by the State Treasurer. The maximum deposit allowed per agency is \$50,000,000 (effective 11/15/09). There is no minimum investment period and interest is earned daily. Money can be withdrawn within 24 hours.

Authorized and Suitable Investments

It is the practice of the District to invest inactive operating and capital improvement funds only with the State Treasurer's Local Agency Investment Fund and/or with local banks and savings and loans.

Prohibited Investments. Under the provisions of CGC Section 53601.6 and 53631.5, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

State Revolving Fund Loan

The following describes the state revolving fund loan with the State of California through the State Water Resources Control Board. This loan is specifically for the Wastewater Treatment Project Upgrade. Project expenses are reimbursed by this loan shortly after the District pays the contractor for the work performed on the Wastewater Treatment Project Upgrade. The first payment on this loan was made in December of 2011 and these payments will continue until January of 2031.

Certificates of Participation Bond Fund

The District issued \$21,750,000 Certificates of Participation in October of 2011 to fund the construction program. The construction program consists of projects to improve the treatment plant, collection system, pump stations, and reclamation system, including associated planning, engineering and administrative costs as outlined in the District's five year capital improvement program. These funds are held in a separate LAIF account and administered through the Bank of New York Mellon N.A. The District requests reimbursement for capital project expenditures from this account on a monthly basis. Payments on this loan began in February of 2012, and will continue for a time period of twenty years. The interest rate ranges from 3% - 4.75%.

Collateralization

All certificates of deposit must be collateralized by U.S. Treasury Obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralization on repurchase and reverse repurchase agreements will adhere to the amount required under CGC Section 53601(i)(2).

Safekeeping and Custody

All security transactions entered into by the District shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the District by book entry, physical delivery or by third party custodial agreement as required by CGC Section 53601.

Diversification

The District will diversify its investments by security type and institution. It is the policy of the District to remit money not required for immediate needs to LAIF for purposes of investment. Assets in the pooled money account are diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

Reporting

In accordance with CGC Section 53646(b)(1), Treasurer shall submit to each member of the Board of Directors a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for the District by third party contracted managers. The report will also include the source of the portfolio valuation. As specified in CGC Section 53646(e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions.

The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and, (2) the District will meet its expenditure obligations for the next six months as required by CGC Section 53646(b)(2) and (3) respectively. The Treasurer shall maintain a complete and timely record of all investment transactions.

Investment Policy Adoption

The Policy shall be reviewed on an annual basis, and modifications must be approved by the Board of Directors.

Annotated from

California Special Districts Association

Local Investing for Special Districts through
County Treasurer-Tax Collectors:

“What Are the Options & Benefits?”
September 27, 2012

DAN McALLISTER
SAN DIEGO COUNTY TREASURER-TAX COLLECTOR

DON KENT
RIVERSIDE COUNTY TREASURER-TAX COLLECTOR

CHUCK LOMELI
SOLANO COUNTY TREASURER-TAX COLLECTOR

Background

The County Treasurer-Tax Collectors in the State of California are responsible for managing the investment pool of their respective counties. These investment pools are local government money funds which can range in assets under management from \$400 million- \$20 billion. As mandated by State law, County Pools are invested in a conservative manner and limit the investments to fixed income securities.

Statewide County Pools

There are 58 County Treasurer-Tax Collectors who are responsible for the investment management of County pools throughout the State of California. Collectively, these Counties pools total more than \$65 billion. Below are the top 5 Counties shown by assets under management:

County	Total Assets*
Los Angeles	\$20,973,374,000
San Diego	\$ 6,129,944,542
Orange	\$ 5,665,176,266
San Francisco	\$ 5,116,400,000
Riverside	\$ <u>4,642,625,742</u>
Total	\$42,527,520,550

*As of June 30, 2012

core competency: managing money

don't put all your eggs in one ask it

Investment Pool Options

- **County Investment Pools**
- **CalTrust** *manage liquidity*
short - , medium - , long-term plans
2-3 years monthly access
not yet active
- **Local Agency Investment Fund ("LAIF")**
JPA set up by County & City Treasurers --- direct investment possible
- **Independent Investment Managers**

Investment Pool Objectives

County investment pools are created by the County Board of Supervisors to invest the assets of the County and other public agencies located within the County (such as special districts).

The three primary objectives of the Investment Pool are:

- To safeguard principal
- To meet liquidity need of Pool participants
- To achieve an investment return on the funds within the guidelines of prudent risk management

Description of County Pools

The County Investment Pools are well diversified and primarily invested in fixed income securities for both mandatory and voluntary participants. Pool investments may include:

- U.S. Treasuries
- Federal Agencies
- Negotiated and Collateralized CDs
- Money Market Funds
- Repurchase Agreements

Investment Pool Oversight

Per State law, the authority to manage the County Pool Assets is delegated to the County Treasurer's Office. The additional layers of investment oversight include:

- An investment team with extensive experience investing in the fixed income markets
- An investment policy that is reviewed annually
- An Oversight Committee comprised of County officials, school district officials and a special district official *IOC = Investment Oversight Committee*
- The Standard & Poor's independent credit rating agency *Monthly reviews by rating agencies*

Rated pools by S&P, Moody's or Fitch. LAIF is not rated. CalTrust is rated.

CSDA Presentation – September 2012

Special District Participants

County Pool participants include school and community college districts as well as special districts. Some of Special District

participants include:

discretionary depositors

- Fire Districts
- Water Districts
- Cemeteries
- Parks and Recreation Districts

Investment Pool Customization

Each Treasurer-Tax Collector's Office has the ability to structure a customized/dedicated investment portfolio for its participants. Specifically, the investment team will meet with special districts to:

- Outline district goals and objectives
- Understand investment risk tolerance
- Perform a cash flow analysis
- Establish a "separate" account that is not commingled with the broader County pool.

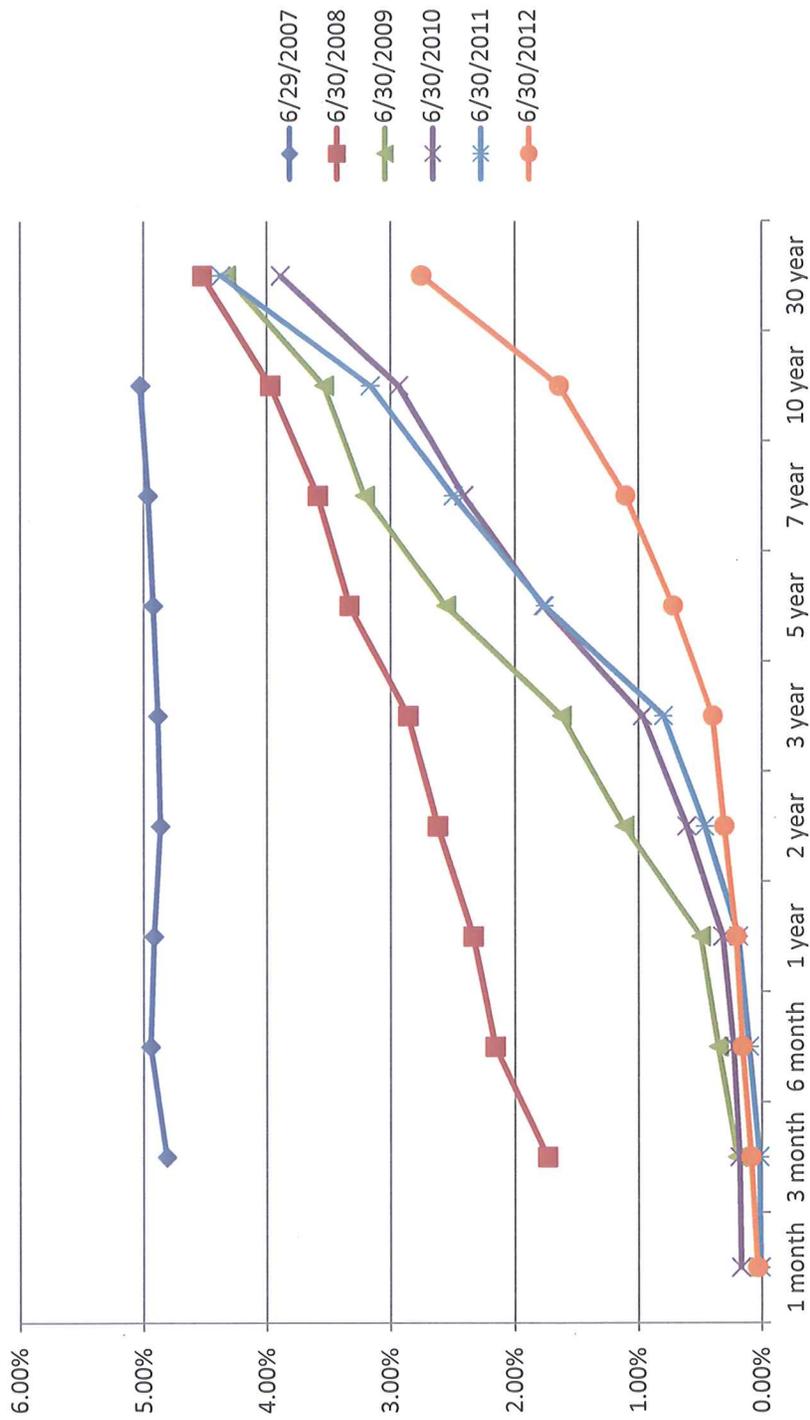
Administrative fees
10 board points
8 board points
10 board points
and hold strategy

LAI = security + liquidity

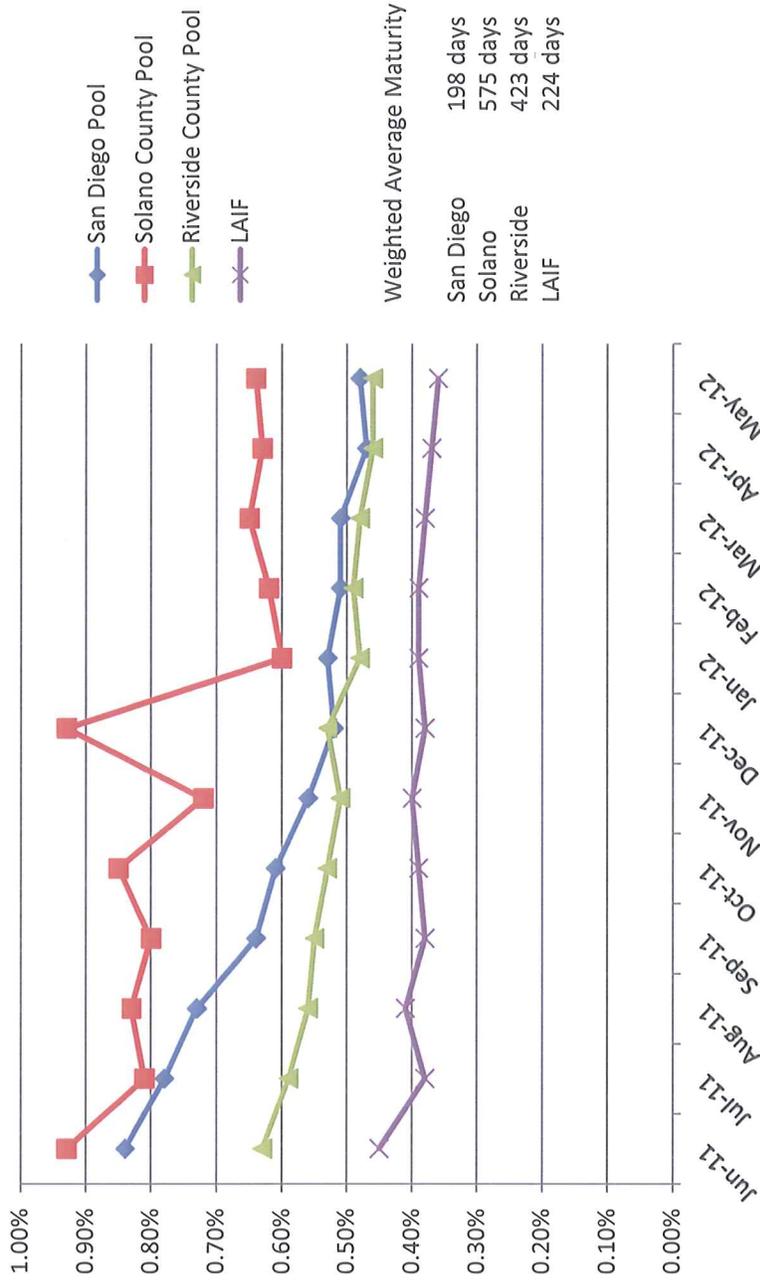
2012 Market Overview

- Fed Chair Bernanke announced QE3 and that he will continue to use monetary tools to keep interest low until 2015
- Unemployment still sluggish and remains above 8%
- Slow GDP growth is expected to hover around 2% for the remainder of the year
- Uncertainty looms the economy concerning the “fiscal cliff”
at year end *U.S. Debt Clock .org*
- Inflation at 1.9% remains relatively tame
- **Bottom Line: A low and prolonged interest rate environment continues to adversely impact the investment returns of County pools throughout the State**

US Treasury Yield Curve



Performance (Select Counties vs. LAIF)



Benefits

- Investment returns of County Pools have historically exceeded LAIF
- Disciplined investment process and continuous investment monitoring
- Multiple layers of investment oversight
- Customized portfolio construction to match Special District cash flow needs

Frequently Asked Questions

Below is a list of questions that should be asked when researching investment management alternatives:

- Is the investment pool rated by a rating agency?
- What are the levels of pool transparency?
- How often are reports generated and how can I obtain these reports?
- How are investment transactions handled?
- What are the next steps to join the pool?

Have Treasurer attend a Board meeting to answer questions.

Conclusion

Thank you for your time.

Local Government
Investment Pool/U.S.
Full Rating Report

Marin County Investment Pool

Ratings

Security Class	Current Ratings
Marin County Treasury Investment Pool	AAA/V1

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Related Research

Applicable Criteria

- *Global Bond Fund Rating Criteria, Feb. 10, 2010*
- *Global Bond Fund Rating Criteria (Short-Term Bond Fund Addendum), March 22, 2010*

Summary

The Marin County Investment Pool is rated 'AAA/V1' by Fitch Ratings, reflecting the credit quality of the portfolio assets and the low sensitivity to market risk. The Marin County Investment Pool is managed by the Marin County treasurer-tax collector on behalf of the pool participants.

The 'AAA' fund credit rating reflects the pool's vulnerability to losses as a result of defaults and is based on the actual and prospective average credit quality of the pool's invested portfolio. As such, the pool is expected to maintain a weighted average portfolio rating of 'AAA', taking into account certain adjustments for the reduced credit risk of short-term securities. The 'V1' fund volatility rating reflects the pool's low market risk and a capacity to return stable principal value to meet anticipated cash flow requirements, even in adverse interest rate environments. Portfolio valuation reports are submitted to Fitch on a monthly basis.

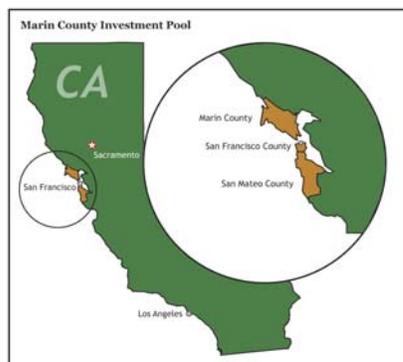
On March 18, 2010, Fitch completed a sector review of all rated local government investment pools (LGIPs) and public investment portfolios, following the publication of updated rating criteria, "Global Bond Fund Rating Criteria," dated Feb. 10, 2010, available on Fitch's Web site at www.fitchratings.com. As part of this review, the fund credit rating assigned to the Marin County Investment Pool was affirmed at 'AAA', and the fund volatility rating was revised to 'V1' from 'V1+'. The revision of the fund volatility rating was solely a result of Fitch eliminating the 'V1+' rating from its fund volatility rating scale. The revision of the fund volatility rating scale did not reflect any change in the market or liquidity risk of the portfolio.

Rating Considerations

- Credit quality of the portfolio is consistent with an 'AAA' fund credit rating. While the pool is permitted, per its investment policy, to invest in securities rated at least 'A/F1' or equivalent, the pool has historically focused its investment strategy on 'AAA' rated government agency securities and high-quality money market funds. The pool may also invest in repurchase agreements, provided they are overcollateralized by at least 102% with U.S. Treasury securities.
- The amount of available liquidity is viewed as sufficient given the predictable nature of the pool's cash outflows and asset maturity profile of the portfolio.
- Management oversight and operational controls are consistent with the assigned ratings.

Overview

The county of Marin is located in Northern California. The Marin County Investment Pool is managed by the Marin County treasurer-tax collector on behalf of the pool participants. Participants are defined as: Marin County; the Marin public school agency; Marin Community College; the Marin County office of education; districts under the control of the county board of supervisors; autonomous/independent districts, whose treasurer is the Marin County treasurer; and any other districts or agencies approved by the board of supervisors and the county treasurer, using Marin County as their fiscal agent. As of Aug. 31, 2010, the pool had \$719 million in assets under management.



The pool is organized and invested in accordance with the state of California Government Code Section 53600 and Section 53639 and is not registered under federal law. The pool’s primary investment objective is preservation of capital. The pool’s secondary objective is to maintain sufficient liquidity to enable participants to meet their operating requirements. The last objective of the pool is to obtain a rate of return consistent with the first two objectives.

Investment Practices

The pool seeks to pursue its investment objectives by investing in a diversified portfolio of high-quality debt securities rated at least ‘A/F1’ by Fitch or of a comparable credit quality by other global rating agencies. Permitted investments include U.S. Treasury and government agency securities and state of California bonds, as well as registered warrants, bankers’ acceptances, commercial paper, negotiable certificates of deposit, time deposits, medium-term notes, shares of money market funds, repurchase agreements, and the Local Agency Investment Fund (LAIF). LAIF is the California state investment pool, managed by the state treasurer’s office.

Under the pool’s investment policies, the use of reverse repurchase agreements or securities lending programs is not permitted.

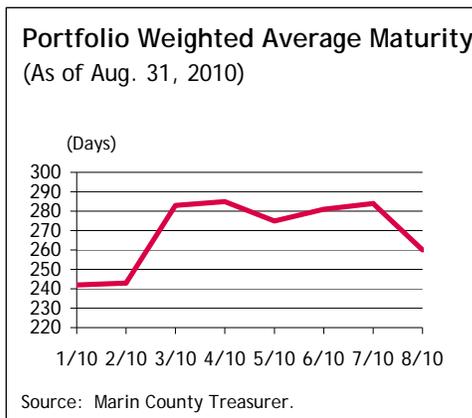
Liquidity Management

The maturity profile of the pool is managed to meet anticipated cash flow needs of the pool’s participants. Investments are generally matched to scheduled cash outflows, using historical cash flow assumptions. Voluntary participants constituted approximately 13.9% of the pool’s assets as of Aug. 31, 2010, with the balance of invested funds coming from Marin County and other mandatory participants.

The pool has daily access to its investments in money market funds and LAIF to meet daily withdrawal requirements and cash outflows. As of Aug. 31, 2010, approximately 27% of the portfolio’s assets had a maturity of 30 days or less. In addition, the pool maintains a significant position in U.S. government agency securities, which are expected to demonstrate secondary market liquidity even during periods of market stress.

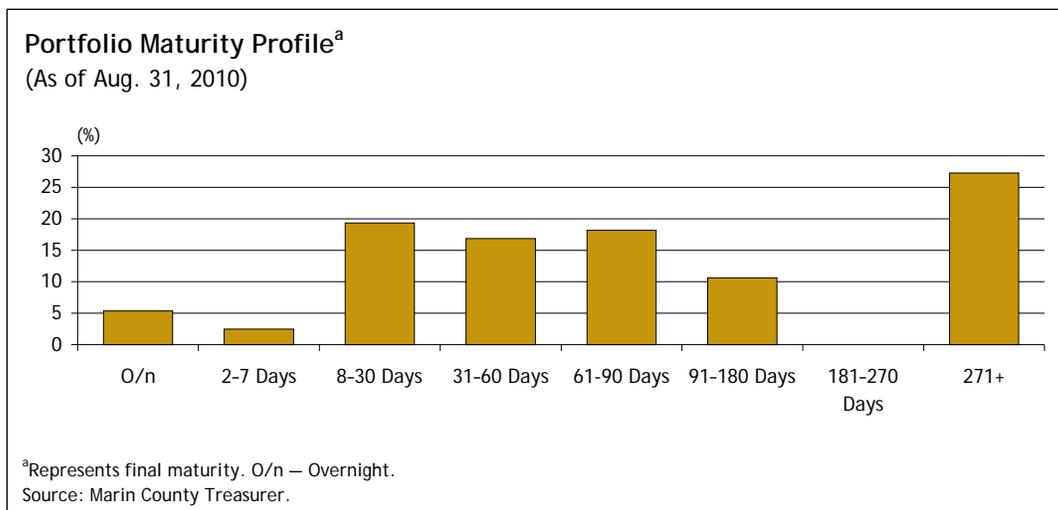
Market Risk

The weighted average maturity to reset date (WAMr) of securities held in the portfolio was approximately 260 days as of Aug. 31, 2010. WAMr is a measure of a portfolio’s sensitivity to changing interest rates. As of the same date, approximately 74% of the pool’s total assets were invested in securities with maturities of one year or less. By policy, the pool must maintain an average maturity of less than 18 months and is not allowed to purchase securities with maturities greater than two years. However, the treasurer may authorize the purchase of U.S. government agency obligations with final maturities of five years or less.



To meet liquidity targets and minimize exposure to interest rate changes, the pool uses a laddered investment strategy across a short maturity spectrum. The pool also employs a cash flow-matching investment strategy to structure investment maturities to coincide with conservative expectations of draws on the portfolio. Marin County Investment Pool has historically benefited from

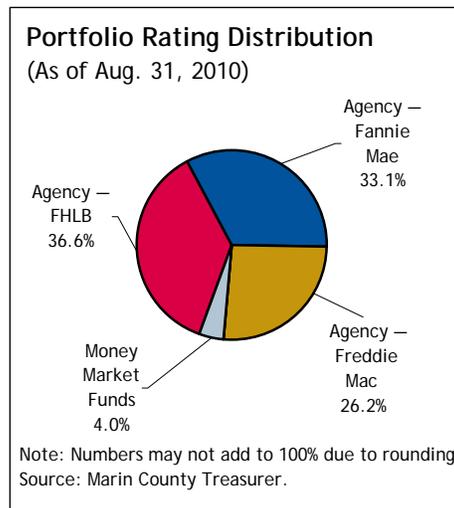
highly predictable cash outflow needs of the pool's participants. The pool's anticipated redemptions include payroll and benefit payments, accounts payable, debt services, and other planned expenditures. Furthermore, no withdrawals from the pool can be made for the purposes of investing those funds outside the pool without prior approval of the Marin County treasurer. An approval can be given as long as such a withdrawal does not negatively affect the interests of other participants. A notice of withdrawal is required to be made in writing at least 10 days prior to the proposed withdrawal date.



Credit Quality

Under the pool's investment policies, the pool portfolio invests in a diversified portfolio of securities issued by entities rated at least 'A/F1' by Fitch or of comparable quality by other global rating agencies.

As of Aug. 31, 2010, approximately 96% of the portfolio was invested in U.S. government agency securities, 4% was invested in money market funds, and 0.03% was invested in LAIF. Eligible money market instruments must be rated at least 'A/F1' by Fitch or of a comparable credit quality by other global credit rating agencies, except LAIF, which is not rated by any rating agencies. The pool restricts concentrations in any one issuer (other than the U.S. government and its agencies) to a maximum of 5% of total assets to minimize single-issuer exposure. Repurchase agreements are entered into only with counterparties rated at least 'A/F1' by Fitch or of comparable quality by other global rating agencies and are 102% collateralized by U.S. government securities. As of Aug. 31, 2010, the pool did not have any investments in repurchase agreements.



LAIF is a LGIP with assets under management of \$69 billion as of June 30, 2010. LAIF funds are not comingled with the state's cash or in any way available for state use. Fitch does not rate LAIF; however, Fitch views it as being managed in a manner generally consistent with other Fitch-rated LGIPs operating in the state of California, in

terms of asset credit quality, issuer diversification, investor diversification, and liquidity management. To maintain investor diversification, LAIF limits the maximum size of a single depositor's account to \$50 million, which equates to approximately 7% of Marin County Investment Pool's assets under management as of Aug. 31, 2010. Aside from this limit, any amount of eligible bond proceeds could be invested in LAIF. As of Aug. 31, 2010, Marin County Investment Pool had a total of \$233,083, or 0.03% of its assets in LAIF. Fitch generally views investments in LAIF by other rated entities of less than or equal to 15% as consistent with 'AAA/V1' ratings, particularly if such investments serve as the sole or primary source of overnight liquidity. Higher levels of exposure to LAIF may be viewed as consistent with 'AAA/V1' ratings, provided that such additional investment does not serve as the sole or primary source of the portfolio's overnight liquidity.

Weighted Average Rating Factor

Based on the portfolio credit quality and maturity profile as of Aug. 31, 2010, Fitch calculated the weighted average rating factor to be consistent with an 'AAA' fund credit rating. This analysis includes a reduction of the credit factors for securities maturing within 13 months in recognition of the lower default probability of such securities relative to longer dated securities.

Rating Distribution and Minimum Ratings

In evaluating LGIPs, Fitch also considers the portfolio's minimum asset ratings as well as the extent to which the portfolio may undertake a bar-belled investment strategy. As of Aug. 31, 2010, the portfolio consisted entirely of long-term assets rated 'AAA' and short-term assets rated 'F1' or higher (or its equivalent by another rating agency). The minimum ratings and absence of a bar-belled investment strategy are viewed as consistent with the 'AAA' fund credit rating assigned to the portfolio.

Diversification

The pool is highly concentrated in U.S. government agency securities, which are not viewed as posing concentration risk given the high credit quality and liquidity of such holdings. As of Aug. 31, 2010, the portfolio held 37% of its total assets in securities issued by the Federal Home Loan Bank (FHLB), 33% in securities issued by Fannie Mae and 26% in securities issued by the Freddie Mac.

Organization

The Marin County Investment Pool is managed by the Marin County treasurer-tax collector's office investment staff. Michael J. Smith, Marin County's treasurer-tax collector, has overall responsibility for overseeing the pool's investments and operations.

The pool's investment policies are reviewed periodically by the treasury oversight committee, consisting of representatives from Marin County, the superintendent of schools' office, and school and special districts.

The pool is subject to quarterly internal audits by the county auditor's office. The pool is also subject to an annual external audit. Wells Fargo Institutional Trust Services, a subsidiary of Wells Fargo Bank, N.A. (rated 'AA-/F1+' by Fitch), acts as the safekeeping agent for the pool's assets.

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California Special Districts Association

SAMPLE POLICY HANDBOOK

POLICY TITLE: Investment of District Funds
POLICY NUMBER: 3120

3120.1 PREMISE

The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code (CGC) §53600.6 and §53630.1); and,

Government Code Sections 5921 and 53601, et seq., allow the legislative body of a local agency to invest surplus monies not required for the immediate necessities of the local agency; and,

The Finance Division Manager or fiscal officer of a local agency is required to annually prepare and submit a statement of investment policy and such policy, and any changes thereto, is to be considered by the local agency's legislative body at a public meeting (CGC §53646(a)).

For these reasons, and to ensure prudent and responsible management of the public's funds, it is the policy of the *[district]* to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all statutes governing the investment of *[district]* funds.

3120.2 SCOPE

This investment policy applies to all financial assets of *[district]*. These funds are accounted for in the Independent Annual Financial Report and include:

Demand Account:
General Fund
Secretary Revolving Fund
Operation and Maintenance Fund
Enterprise Funds
[others]

Investments:
Local Agency Investment Fund
[others]

3120.3 PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for

speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (CGC §53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations for expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

3120.4 OBJECTIVES

As specified in CGC §53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives of the investment activities, in priority order, shall be:

3120.4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of *[district]* shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

3120.4.2 Liquidity: The investment portfolio will remain sufficiently liquid to enable *[district]* to meet all operating requirements which might be reasonably anticipated.

3120.4.3 Return on Investments: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

3120.5 DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from California Government Code Sections 53600, et seq. Management responsibility for the investment program is hereby delegated to the Finance Division Manager *[or other appropriate district officer]*, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, PSA repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Division Manager *[or other appropriate district officer]*. The Finance Division Manager *[or other appropriate district officer]* shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provisions of California Government Code §53600.3, the Finance Division Manager *[or other appropriate district officer]* is a trustee and a fiduciary subject to the prudent investor standard.

3120.6 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

3120.7 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Finance Division Manager *[for other appropriate district officer]* will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness that are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Finance Division Manager shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Finance Division Manager *[for other appropriate district officer]* shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for *[district]*'s account with the firm has reviewed *[district]*'s Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to *[district]* that are appropriate under the terms and conditions of the Investment Policy.

3120.8 AUTHORIZED AND SUITABLE INVESTMENTS

The *[district]* is empowered by California Government Code §53601, et seq., to invest in the following:

3120.8.1 Bonds issued by the *[district]*.

3120.8.2 United State Treasury Bills, Notes & Bonds.

3120.8.3 Registered state warrants or treasury notes or bonds issued by the State of California.

3120.8.4 Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including pooled investment accounts sponsored by the State of California, County Finance Division Managers, other local agencies or Joint Powers Agencies.

3120.8.5 Obligations issued by agencies or instrumentalities of the United States Government.

3120.8.6 Bankers' acceptances with a term not to exceed 270 days. Not more than 40% of surplus funds can be invested in bankers' acceptances and no more than 30% of surplus funds can be invested in the bankers acceptances of any single commercial bank.

3120.8.7 Prime commercial paper of U.S. corporations with assets greater than \$500 million, with a term not to exceed 180 days and the highest ranking issued by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P). Commercial paper cannot exceed 15% of total surplus funds, provided that, if the average maturity of all commercial paper does not exceed 31 days, up to 30% of surplus funds can be invested in commercial paper.

3120.8.8 Negotiable certificates of deposit issued by federally or state chartered banks or associations. Not more than 30% of surplus funds can be invested in certificates of deposit.

3120.8.9 Repurchase/reverse repurchase agreements of any securities authorized by this section. Securities purchased under these agreements shall be no less than 102% of market value. (See special limits in CGC §53601.i.)

3120.8.10 Medium term notes (not to exceed 5 years) of U.S. corporations rated "A" or better by Moody's or S&P. Not more than 30% of surplus funds can be invested in medium term notes.

3120.8.11 Shares of beneficial interest issued by diversified management companies (money market mutual funds) investing in the securities and obligations authorized by this Section. Such funds must carry the highest rating of at least two of the three largest national rating agencies. Not more than 15% of surplus funds can be invested in money market mutual funds.

3120.8.12 Funds held under the terms of a trust indenture or other contract or agreement may be invested according to the provisions of those indentures or agreements.

3120.8.13 Collateralized bank deposits with a perfected security interest in accordance with the Uniform Commercial Code (UCC) or applicable federal security regulations.

3120.8.14 Any mortgage pass-through security, collateralized mortgage obligation, mortgaged backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable backed bond of a maximum maturity of five years. Securities in this category must be rated AA or better by a nationally recognized rating service. Not more than 30% of surplus funds may be invested in this category of securities.

3120.8.15 Any other investment security authorized under the provisions of CGC §5922 and §53601. (Also, see CGC §53601 for a detailed summary of the limitations and special conditions that apply to each of the above listed investment securities. CGC §53601 is included by reference in this investment policy.)

3120.8.15.1 *Prohibited Investments.* Under the provisions of CGC §53601.6 and §53631.5, [district] shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

3120.9 COLLATERALIZATION

All certificates of deposits must be collateralized by U.S. Treasury Obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralization on repurchase and reverse repurchase agreements will adhere to the amount required under CGC §53601(i)(2).

3120.10 SAFEKEEPING AND CUSTODY

All security transactions entered into by the *[district]* shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to *[district]* by book entry, physical delivery or by third party custodial agreement as required by CGC §53601.

3120.11 DIVERSIFICATION

[District] will diversify its investments by security type and institution. It is the policy of the *[district]* to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply:

3120.11.1 Portfolio maturities shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.

3120.11.2 Maturities selected shall provide for stability of income and liquidity.

3120.11.3 Disbursement and payroll dates shall be covered through maturities investments, marketable U.S. Treasury bills or other cash equivalent instruments such as money market mutual funds.

3120.12 REPORTING

In accordance with CGC §53646(b)(1), the Finance Division Manager *[or other appropriate district officer]* shall submit to each member of the Board of Directors a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for *[district]* by third party contracted managers. The report will also include the source of the portfolio valuation. As specified in CGC §53646 (e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that: (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy; and, (2) *[district]* will meet its expenditure obligations for the next six months as required by CGC §53646(b)(2) and (3), respectively. The Finance Division Manager *[or other appropriate district officer]* shall maintain a complete and timely record of all investment transactions.

3120.13 INVESTMENT POLICY REVIEW

This Investment Policy shall be reviewed on an annual basis, and the Board of Directors must approve modifications.

NOVATO SANITARY DISTRICT

MEMORANDUM

Date: November 2, 2012
To: Finance Committee
From: Beverly James, Manager-Engineer
Subject: Financial Procedures

Background:

Novato Sanitary District has a set of procedures in place that govern District financial transactions in order to define authority, establish positive financial controls, prevent fraud and to encourage full and open competition on purchases. Copies of these procedures are attached and summarized briefly below.

Purchasing Procedure: governs the acquisition of materials, services, and equipment. Its purpose is to establish positive financial control over purchases; to define authority for the purchasing function; and to encourage full and open competition on purchases.

Cash Disbursements and Accounts Payable Procedure: governs the process of preparing vendor invoices for payment for goods or services that have been properly authorized and received by the District. Its purpose is to establish firm internal controls over the cash disbursement/accounts payable process to ensure proper authorization of purchases, proper segregation of duties and safeguarding of assets.

Cash Receipts and Accounts Receivable Procedure: governs the receipt of revenue to the District in all forms cash, check or ach receipts for all of its customers/clientele. The purpose of these procedures is to establish financial control over District revenue ensuring essential internal controls are in place, such as safeguarding of assets and segregation of duties.

Electronic Transfer Procedure: governs all electronic or wire transfer of District Funds between all District accounts. The purpose of this procedure is to establish financial control over the transfer of District assets ensuring essential internal controls are in place, which include proper authorization, asset accountability, safeguarding of assets, protection against "hacking", and segregation of duties.

**NOVATO SANITARY DISTRICT
PURCHASING PROCEDURES**

**AUGUST 1, 2004
(Revised 8/28/06)
(Revised 9/10/07)
(Revised 7/25/11)**

Scope and Purpose:

These procedures govern the acquisition of materials, services, and equipment by Novato Sanitary District. The purpose of these procedures is to establish positive financial control over purchases; to define authority for the purchasing function; and to encourage full and open competition on purchases.

Purchasing Procedures:

The following procedures apply for items and services with a value up to \$30,000. If there is an emergency, the procedures outlined in the District's Emergency Response Manual prevail.

- 1) Purchases under \$200 do not require a purchase order but the following procedure must be followed:
 - a. Managers, Supervisors, Superintendents, Leadworkers, and Engineers may make these purchases without additional pre-authorization. All other employees must get a verbal authorization from a Manager, Supervisor, or Leadworker before placing the order or making the purchase.
 - b. A receipt must be turned in to the Supervisor clearly identifying the item purchased, what it was used for, and where it was used.
 - c. The Supervisor is responsible for assigning an accounting code to the receipt and turning it into the Administrative Secretary.

- 2) Purchases between \$200 and \$999:
 - a. A purchase order must be obtained from the Administrative Secretary and signed by a Supervisor, Superintendent, or Manager before an order is placed or an item is purchased.
 - b. The purchaser must verify that there is sufficient balance in the budget for the item.
 - c. Competitive quotes shall be obtained on new or unfamiliar items to insure relative cost and availability.
 - d. A copy of the completed purchase order must be provided to the Administrative Secretary.

- 3) Purchases between \$1,000 and \$4,999:
 - a. A purchase order must be obtained from the Administrative Secretary and signed by the Administrative Services Manager, the Deputy Manager-Engineer or the Manager-Engineer before an order is placed or an item is purchased.
 - b. The purchaser must verify that there is sufficient balance in the budget for the item.
 - c. Competitive quotes shall be obtained on new or unfamiliar items to insure relative cost and availability.
 - d. A copy of the completed purchase order must be provided to the Administrative Secretary.

- 4) Purchases between \$5,000 and \$30,000:
 - a. The Deputy Manager-Engineer is authorized to approve purchase orders for budgeted items up to \$15,000.
 - b. The Manager-Engineer is authorized to approve purchase orders for non-budgeted items up to \$10,000 and up to \$30,000 for budgeted items.
 - c. The purchaser must verify that there is sufficient balance in the budget for the item.
 - d. Competitive quotes shall be obtained on new or unfamiliar items to insure relative cost and availability.
 - e. A copy of the completed purchase order must be provided to the Administrative Secretary.

- 5) Purchases over \$30,000:
 - a. A request for authorization to purchase the item must be prepared for the Board of Directors.
 - b. The purchaser must verify that there is sufficient balance in the budget for the item.
 - c. The Manager-Engineer will present the request for authorization to the Board of Directors.
 - d. After Board authorization a purchase order must be obtained from the Administrative Secretary and signed by the Manager-Engineer before an order is placed or an item is purchased.
 - e. Competitive quotes shall be obtained to insure relative cost and availability.
 - f. A copy of the completed purchase order must be provided to the Administrative Secretary.

- 6) Purchases subject to competitive bidding requirements will be made in accordance with District Ordinance No. 109, adopted August 28, 2006.

Financial Procedures – FIN 102

NOVATO SANITARY DISTRICT PROCEDURES FOR CASH DISBURSEMENTS AND ACCOUNTS PAYABLE October 26, 2012

RELATED POLICIES AND PROCEDURES

Investment Policy (revised 10/22/12): The Novato Sanitary District Investments are managed in accordance with the Investment Policy as adopted and reviewed annually by the Board of Directors under California Government Code Sections 53600, et seq. Under the Investment Policy management responsibility for the investment program is delegated to the Treasurer, Beverly B. James. The following written procedures govern the operation of the investment program consistent with this investment policy. Such procedures include explicit delegation of authority to persons responsible for investment transactions.

Purchasing Procedures (revised 7/25/11): Govern the acquisition of materials, services, and equipment by Novato Sanitary District. The purpose of these procedures is to establish positive financial control over purchases; to define authority for the purchasing function; and to encourage full and open competition on purchases.

Investment Procedure (revised 10/26/2012): Governs all the District's financial assets in all of its bank accounts. The scope includes fund management, safekeeping and custody, proper authorization of transactions and proper reporting and review.

Cash Receipts/Accounts Receivable Procedure (revised June 2010): Governs the handling of cash and checks by the District and the procedures for Accounts Receivable. The purpose of these procedures is to provide a secure method of handling receipts with a separation of responsibilities and oversight.

Electronic Banking Procedure (revised 10/20/2010): Governs the transfer of monies between District Bank accounts, between LAIF and District bank accounts, and electronic payments.

SCOPE AND PURPOSE

These procedures govern the process of preparing vendor invoices for payment for goods or services that have been properly authorized and received by the District. The purpose of these procedures is to establish firm internal controls over the cash disbursement/accounts payable process to ensure proper

authorization of purchases, proper segregation of duties and safeguarding of assets.

CASH DISBURSEMENTS/ACCOUNTS PAYABLE PROCEDURES:

1. Payment of monthly invoices.
 - a. As invoices are received they are date stamped and placed in the accordion alpha file on the Administrative Secretary's desk.
 - b. A week before the first and second Board Meetings in the month, the Administrative Secretary matches the packing slip, purchase order and invoice as necessary. She stamps the invoice with the coding stamp and puts invoice with supporting documentation in the appropriate department head's file for their approval. She codes the invoices she knows and lets the supervisor provide the coding if unsure.
 - c. When assigning account numbers to invoices, refer to Chart of Accounts, Description of Accounts, or the Budget.
 - d. After the invoices are sorted, stamped, and if appropriate, coded to the proper account number, the invoices are given to the appropriate department head for authorization of payment.
 - e. Once the invoices are returned to the Administrative Secretary, she inputs the data in Quick Books, which will not allow duplicate invoice numbers for the same vendor.
 - f. Once all the invoices are in, the Administrative Secretary prepares the Unpaid Bills Detail Report, which shows all the unpaid invoices with the account coding and the amount due.
 - g. The Finance Officer reviews the Unpaid Bills Detail Report for completeness and accuracy based on the invoices and their supporting documentation.
 - h. The Finance Officer then prepares two reports: Unpaid Bills Detail – Capital and Unpaid Bills Detail – Operating. These reports are agreed to the amount being paid out of Quick Books based on the invoices reviewed and entered.
 - i. Checks are printed and reviewed again for accuracy by the Administrative Secretary or Finance Officer.
 - j. Check registers are prepared for the upcoming Board meeting. The Operating, Payroll and Capital Accounts payments are reviewed and

Cash Disbursements/Accounts Payable Procedure

November 1, 2012

Page 3 of 4

approved at a properly noticed public meeting of the Board of Directors. The Unpaid Bills Detail Report is included in the Board packet and the check register, checks and invoices with supporting documentation are made available for review at the board meeting and for the check signers. (For the cases in which a payment must be made before Board review see the procedure in Item 2 below.)

- k. With the exception of petty cash checks, each check must be signed by two authorized signers, one staff member and one board member. The Board of Directors authorizes the check signers.
 - l. Check registers are filed in the Finance – Warrants file and a copy is filed in the Administrative Service Manager’s office.
 - m. The checks are mailed the following day by the Administrative Secretary unless the District has received a prior request to hold the check for pick up by the vendor. When mailing checks to vendors, the third check stub is attached to original invoice. The check stubs and invoices/supporting documentation are filed by vendor in the paid vendor file, unless it is a capital project disbursement, then they are filed with the project.
2. Payments issued prior to Board review and approval
 - a. On rare occasions, we may need to issue a check before the board reviews and approves, however, the invoice will still follow the same procedures for processing and the check will still require two signatures, one authorized staff member and one authorized board member.
 - b. The only difference is that the check will go out before the board reviews and approves the payment as a whole. However, the invoice and check will be included for review and approval by the board on the very next check run.
3. Petty Cash Disbursements.
 - a. The District has two Petty Cash accounts: one is the petty cash box which is for very small purchases under \$25.00 and the other is petty cash checking which is for larger amounts over \$25 but under \$1,000.
 - b. The Petty Cash box is strictly for reimbursement for tolls, meals, supplies, meetings etc...for employees. The employee gives the Finance Officer or the Administrative Secretary a receipt and they are reimbursed from the locked petty cash box. The Finance Officer or Administrative Secretary write up a receipt with the name of the

employee requesting reimbursement, the amount, the account code and sign the receipt. This receipt is attached to the receipt provided by the employee and put in the petty cash box. The petty cash box is reconciled once a month by the Finance Officer.

- c. The Petty Cash Checking account follows the same procedure for approval of an invoice, however these expenses are for items which must be paid in between check cutting dates such as training fees, tests, boot reimbursements, filing fees, and other expenditures less than \$1,000. These expenditures are approved by the appropriate supervisor and a petty cash check is prepared by the Finance Officer or Administrative Secretary. The petty cash checks are locked in a drawer with the petty cash box. The check requires two signatures. The Finance Officer, the Manager-Engineer, and the Deputy Manager-Engineer are authorized to sign Petty Cash Checks. The invoice and check are entered into Quickbooks by the Finance Officer or the Administrative Secretary.

PROCEDURE REVIEW

The procedure shall be reviewed on an annual basis with the Investment procedures annual review and modifications must be approved by the Manager-Engineer.

Prepared By:

Laura Creamer, Finance Officer

Approved By:

Beverly B. James, Manager-Engineer

Financial Procedures – FIN 103

NOVATO SANITARY DISTRICT PROCEDURES FOR CASH RECEIPTS AND ACCOUNTS RECEIVABLE October 26, 2012

RELATED POLICIES AND PROCEDURES

Investment Policy (revised 10/22/12): The Novato Sanitary District Investments are managed in accordance with the Investment Policy as adopted and reviewed annually by the Board of Directors under California Government Code Sections 53600, et seq. Under the Investment Policy management responsibility for the investment program is delegated to the Treasurer, Beverly B. James. The following written procedures govern the operation of the investment program consistent with this investment policy. Such procedures include explicit delegation of authority to persons responsible for investment transactions.

Purchasing Procedures (revised 7/25/11): Govern the acquisition of materials, services, and equipment by Novato Sanitary District. The purpose of these procedures is to establish positive financial control over purchases; to define authority for the purchasing function; and to encourage full and open competition on purchases.

Investment Procedure (revised 10/26/2012): Governs all the Districts financial assets in all of its bank accounts. The scope includes fund management, safekeeping and custody, proper authorization of transactions and proper reporting and review.

Cash Disbursements/Accounts Payable Procedure (revised June 2010): Governs the process preparing vendor invoices for payment for goods or services that have been properly authorized and received by the District.

Electronic Banking Procedure (revised 10/20/2010): Governs the transfer of monies between District Bank accounts, between LAIF and District bank accounts, and electronic payments.

SCOPE AND PURPOSE

These procedures govern the receipt of revenue to the District in all forms cash, check or ach receipts for all of its customers/clientele. The purpose of these procedures is to establish financial control over District revenue ensuring essential internal controls are in place, such as safeguarding of assets and segregation of duties.

INCOME RECEIPTS PROCEDURE

- a. Checks or cash received at the counter or by mail is receipted in by the Administrative Secretary or the Finance Officer. The receipt includes the customer's name, the amount, the account coding and a signature. The receipt is in triplicate the white copy is for the customer, the yellow copy is filed under the counter and the pink copy is given to the Finance Officer for proper recording of the deposit. Once it is recorded, it is filed with the cash receipt summary.
- b. The Engineering Department is informed when plan-checking fees are received.
- c. When County of Marin checks are received, the Finance Officer is informed and she determines the breakdown between taxes and service charges.
- d. ACH deposits are received on a monthly basis from the United States Coast Guard(USCG) for their sewer service charges. The Finance Officer posts the amount to the cash flow spreadsheet and general ledger upon receipt.
- e. Bank deposits are prepared by the Finance Officer on a weekly or as needed basis. All deposits are put in the operating account unless they are from the American Resource and Recovery Act or Proposition 84 Grant reimbursements. In each of these cases, there are separate bank accounts in which each of these is deposited. The Administrative Secretary makes all the deposits.
- f. Bank deposits are posted to the cash flow spreadsheet by the Finance Officer every time a deposit is made. The Manager-Engineer reviews this spreadsheet along with the bank statements.
- g. QuickBooks Pro Enterprises is used to post to the general ledger. The Finance Officer posts deposits to the General ledger and prepares the summary from QuickBooks. The summary is attached to the receipts and deposit slip and is filed in the Finance – Deposits file. A copy of this summary is also filed in the Admin. Serv. Mgr's office.
- h. The Board of Directors reviews all the deposits on a monthly basis from a summary prepared by the Finance Officer.

ACCOUNTS RECEIVABLE PROCEDURE

- a. The District requests payment for service provided to other agencies, firms or individuals. The following billings are routinely sent to other agencies:
 - i. Semi-monthly- Waste haulers for septic dumpings - Prepared by Administrative Secretary,

- ii. Quarterly – Ranch lease prepared by the Finance Officer
 - iii. Semi-annually- Service charge billings to non-taxed agencies, spreadsheet prepared by Information Specialist II and invoices prepared by Finance Officer,
 - iv. Quarterly invoices prepared for reimbursement of Veolia's expenditures are prepared by Finance Officer.
- b. Tickler cards are filed as reminders when these invoices should be prepared, tickler file at Administrative Secretary's desk
 - c. When payment is received, a copy of the receipt is attached to the outstanding invoice in the file at the Finance Officer's desk and filed with the deposit or the appropriate Accounts Receivable file once posted in Quickbooks as part of the deposit process described
 - d. On a monthly basis accounts receivable aging report is reviewed by the Board of Directors.

PROCEDURE REVIEW

The procedure shall be reviewed on an annual basis with the Investment procedures annual review and modifications must be approved by the Manager-Engineer.

Prepared By:

Laura Creamer, Finance Officer

Date

Approved By:

Beverly B. James, Manager-Engineer

Date

Financial Procedures – FIN 104

NOVATO SANITARY DISTRICT ELECTRONIC FUNDS TRANSFER PROCEDURE October 26, 2012

RELATED POLICIES AND PROCEDURES

Investment Policy (revised 10/22/12): The Novato Sanitary District Investments are managed in accordance with the Investment Policy as adopted and reviewed annually by the Board of Directors under California Government Code Sections 53600, et seq. Under the Investment Policy management responsibility for the investment program is delegated to the Treasurer, Beverly B. James. The following written procedures govern the operation of the investment program consistent with this investment policy. Such procedures include explicit delegation of authority to persons responsible for investment transactions.

Purchasing Procedures (revised 7/25/11): Govern the acquisition of materials, services, and equipment by Novato Sanitary District. The purpose of these procedures is to establish positive financial control over purchases; to define authority for the purchasing function; and to encourage full and open competition on purchases.

Cash Receipts/Accounts Receivable Procedure (revised June 2010): Governs the handling of cash and checks by the District and the procedures for Accounts Receivable. The purpose of these procedures is to provide a secure method of handling receipts with a separation of responsibilities and oversight.

Cash Disbursements/Accounts Payable Procedure (revised June 2010): Governs the process preparing vendor invoices for payment for goods or services that have been properly authorized and received by the District.

Investment Procedure (revised 10/26/2012): Governs the handling of cash and checks by the District and the procedures for Accounts Receivable. The purpose of these procedures is to provide a secure method of handling receipts with a separation of responsibilities and oversight.

Electronic Security Procedures:

SCOPE AND PURPOSE

These procedures govern the transfer of District Funds between all District accounts with WestAmerica Bank and our LAIF accounts with the State of California and The Bank of New York Mellon N.A. The purpose of these procedures is to establish financial control over the transfer of District assets ensuring essential internal controls are in place, which include proper

authorization, asset accountability, safeguarding of assets and segregation of duties.

ALLOWABLE ELECTRONIC FUNDS TRANSFER

1. From LAIF to Operating Account
2. From Operating Account to LAIF
3. From Operating Account to Payroll Account, Project Account, Petty Cash Account.
4. From Payroll Account to District employees or retirees.
5. From Operating Account to District employees or Board members.

ESTABLISHING ALLOWABLE ELECTRONIC FUNDS TRANSFER FROM DISTRICT BANK ACCOUNTS

1. A form is given to the employee or retiree to complete which identifies the name of the requestor, the transit and account numbers of the bank receiving the funds. In addition, the signature of the requestor is required and the form is kept on file in the Personnel file.
2. Once the form is completed the Finance Officer logs into the Bank with the proper authorization as identified below and enters the information on behalf of the employee or retiree or board member.
3. Upon entry of this information the bank verifies the transit number of the receiving bank and will only accept the entry upon verification.

EXECUTING AN ELECTRONIC FUNDS TRANSFER FROM DISTRICT BANK ACCOUNTS

1. After logging on using Company ID, Company Password, User ID, and User Password, data is entered by an authorized user, usually the Finance Officer.
2. Upon receiving the electronic entries, the bank emails authorized users, the District Manager-Engineer, the Administrative Services Manager, and the Finance Officer, alerting them that a batch notification has been received by the bank for approval.
3. A fax on District letterhead is prepared by the Finance Officer indicating how many entries, how many batches, and amount of each batch to be transmitted. She gives the fax to the Administrative Services Manager for verification to approve the transactions.

4. The Administrative Services Manager (or in her absence the District Manager) logs on to Internet banking – again using 4 forms of ID, to approve the transactions. She compares them with the fax and reviews the entries.
5. The approval can only then be finalized by entering a code from an electronic fob provided by the bank. The code changes every 60 seconds.
6. The Administrative Services Manager returns the fax to the Finance Officer to send to the bank.
7. If for some reason the bank has not received the fax, they WILL NOT execute the transactions. They will call the District and request that the fax be sent.
8. After successful transmission, the bank confirms execution of the batch with another email to the District Manager, the Administrative Services Manager, and the Finance Officer.

ELECTRONIC FUNDS TRANSFER FROM THE LOCAL AGENCY INVESTMENT FUND (LAIF) TO WESTAMERICA BANK

1. Funds may only be transferred from LAIF to the District's Operating Account at WestAmerica Bank by authorized personnel. Currently, Manager-Engineer and Finance Officer are the authorized personnel.
2. Call LAIF to request wire transfer to the Operating Account at WestAmerica. A LAIF operator will verify the caller has the proper authorization and then for further verification the District will be asked for their pin number.
3. The caller must give the LAIF operator the amount of the transfer and the account number of the bank the funds are to be transferred to. The LAIF operator will verify the amount of the transfer, the account number where these monies are being transferred and then give the caller a confirmation number.
4. This information is recorded by the Finance Officer and posted to the cash flow spreadsheet and general ledger.

ELECTRONIC FUNDS TRANSFER TO LAIF

1. Funds may only be transferred from the District's Operating Account at WestAmerica Bank by authorized personnel. Currently, Manager-Engineer and Finance Officer are the authorized personnel.

2. Call LAIF to notify them of the wire transfer to LAIF from WestAmerica. A LAIF operator will verify the caller has the proper authorization and then for further verification the District will be asked for their pin number.
3. The caller will give the LAIF operator the amount of the transfer and the account number of the bank the funds are to be transferred from. The LAIF operator will verify the amount of the transfer and the account and then give the caller a confirmation number.
4. The authorized person then calls WestAmerica bank and lets them know of the upcoming outgoing transfer from their bank to LAIF. WestAmerica verifies the caller is authorized and upon completion of verification obtains the LAIF confirmation number from the caller.
5. The transfer information is recorded by the Finance Officer and posted to the cash flow spreadsheet and the general ledger.

COMPUTER FRAUD INSURANCE

Novato Sanitary District carries \$1,000,000 of computer fraud insurance coverage.

PROCEDURE REVIEW

The procedure shall be reviewed on an annual basis with the Investment procedures annual review and modifications must be approved by the Manager-Engineer.

Prepared By:

Laura Creamer, Finance Officer

Date

Approved By:

Beverly B. James, Manager-Engineer

Date