

Claire McAuliffe, President
Corinne W. Wiley, Vice President

Catharine Benediktsson, Secretary
Casey Kawamoto, Director
V. William Brady, Director

**Sanitary District No. 5 of Marin County
Finance & Fiscal Oversight Committee Meeting
at Sanitary District No. 5 of Marin County Meeting Room
2001 Paradise Drive, Tiburon, California
Monday, January 12, 2009 10:00 a.m.**

CALL TO ORDER at 10:03 a.m.

- I. ROLL CALL:**
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| Directors present: | Corinne W. Wiley, Vice President
Catharine Benediktsson, Secretary |
| Staff present: | Robert L. Lynch, District Manager
Samantha Miller, Office/Finance Manager |
| Others present: | David Perotti, Perotti & Carrade CPAs |

II. PUBLIC COMMENTS: None

III. NEW BUSINESS:

The Committee moved Item C, as described on the agenda, to this time so Mr. David Perotti would not have to remain for the entire meeting.

c. David Perotti Report – Internal Audit of Fund Allocation for the Zone Breakout and the Calculations Being Used for the Different Zones (attached)

The Committee discussed the missing document that is expected to explain the basis for the 30.66% figure historically used to allocate capital improvement expenditures to the Belvedere zone. District staff has not been able to locate the document, and Mr. Perotti believes capital improvement expenditures should prospectively be allocated based on sewage flow, as the expenses are. Mr. Perotti said there appears to be little support, other than historic precedent, for doing otherwise.

Mr. Perotti began his presentation to the Committee by recommending that the District begin using one methodology across the board to allocate costs – flowage.

Mr. Perotti explained the change he has proposed to the Paradise Cove percentage allocation. He believes it is appropriate to use sewage flow, rather than EDUs, to

allocate costs to Paradise Cove. This would provide a uniform basis of allocation throughout all zones. He explained that the effect this will have on the Belvedere zone will be minimal in terms of operating expenses – a decrease from 33.67% to 33.24%.

Mr. Perotti proceeded to explain in more detail the rationale for his proposed percentage allocations for capital expenditures. He said that since operating costs are being charged on the basis of flowage, capital expenditures should use the same basis. It would only make sense that you pay the same percentage of a cost to *replace* something as you pay to *use* it. Therefore, Mr. Perotti recommends that capital improvement expenditures be allocated based on sewage flow.

After discussing Mr. Perotti's proposal, the Committee agreed with his rationale and proposed allocation percentages. The Committee would like these percentages to be recalculated in this same manner every year to reflect the actual flow rates from the previous year. If the percentages do not change much, the Board can decide to keep the numbers the same for the next year.

The Committee asked Mr. Perotti to come to the Board Meeting on January 13, 2009 to present his proposal to the entire Board and be available for questions. Mr. Perotti agreed. He added that he will begin working on Part 2 of his internal audit with Mgr. Miller and Mrs. Leslie LaTorre on January 21, 2009. He expects his recommendations for Part 2, the audit of the District's accounting system and financial reports, to be implemented at the beginning of the 2009-2010 fiscal year, if they are accepted.

a. Warrants for December 2008 (attached)

The Committee reviewed and approved warrants for December 1 - 31, 2008, #2598 through 2680, in the amount of \$241,705.56. The Committee commented on the PG&E bills and discussed the idea of installing solar panels at the main plant to help reduce the District's energy costs. The Committee would like Mgr. Lynch to continue to investigate this option.

V.P. Wiley asked when the next principal payment will be made for the Belvedere zone's Westamerica loan. Mgr. Miller informed the Committee that the loan payment due on January 1, 2009 was interest only, and the next principal payment will be due July 1, 2009.

The Committee asked when the next digester cleaning will occur, and Mgr. Lynch replied it will start again at the beginning of the next fiscal year. He added that some lines are only cleaned once per year and others twice per year.

Sec. Benediktsson pointed out that warrant #2655 to USA BlueBook for supplies should not be under account #861: Safety Coordinator.

The Committee asked how the alarms in the plant have been working, and Mgr. Lynch replied they are working great, and SCADA is much better than Bay Alarm. We are currently using SCADA as the primary alarm system, and we will continue to keep Bay Alarm for a back-up, in case the computer systems fail.

b. Financial Reports for December 2008 (attached)

The Committee reviewed and approved the Financial Reports for December 1 - 31, 2008. Sec. Benediktsson asked how Mgr. Miller will proceed to correct the books using the new zone allocation percentages Mr. Perotti has recommended. Mgr. Miller replied that she and Mgr. Lynch will have to go back through each invoice, changing them one by one, starting with July 1, 2008. Sec. Benediktsson commented on how much work that will be.

IV. ADJOURNMENT at 11:09 a.m.

Recorded by Samantha Miller