

Pliocene Ridge Community Services District Directors' Handbook

BASIC RESPONSIBILITIES

Board Members (Directors) are expected to read the monthly meeting packets before each month's meeting and to arrive on time and prepared. The Secretary or President should be notified in advance if unable to attend.

Directors should familiarize themselves with the District's Bylaws and Policies & Procedures. These can be accessed online at plioceneridge.org (link in center of page), or a hard copy may be requested. Policies & Procedures should be reviewed regularly.

A document explaining the purpose of and difference between Bylaws and Policies & Procedures is attached as **Exhibit A** at the end of this document. **Exhibit B** explains the difference between Directors and Officers (a common area of confusion). The District's Bylaws explain most of the responsibilities and expectations for directors and officers.

The Directors have a fiduciary responsibility to protect the district's assets. Establishing policies and procedures to prevent fraudulent financial activity is the main tool for accomplishing this. This is referred to as establishing "internal accounting controls". In larger organizations this is accomplished by splitting up financial tasks between different individuals or departments. Smaller organizations such as PRCSD are limited in their ability to separate duties.

There are several tools that are used by PRCSD to aid the Directors in their fiduciary responsibilities.

- The monthly treasurer's report does not require accounting experience to understand. It is the responsibility of the directors to examine this document every month. The "beginning balances" for each month should match the "ending balances" for the previous month's report. All check numbers should be listed, i.e. the first check number(s) each month should be sequential to the last numbers on the prior month's report. There are two sets of check numbers, one for hand-written checks and one for checks that are printed directly out of the accounting program.
- The treasurer is required to provide a copy of the bank statements and reconciliation reports printed from the accounting program to a Director for comparison against the monthly treasurer reports every month. The Director then signs off on the treasurer's report. It is important to follow these procedures even if you trust the treasurer implicitly. The treasurer may make a mistake and the sooner that it is caught the better.

- Accounting Policies and Procedures (2000 series) are an important aspect of PRCSD's internal controls. Directors should be familiar with them.
- The annual independent audit is a legal requirement for Special Districts such as Community Services Districts. The audit is conducted by an outside accounting firm certified in Governmental Accounting. The auditors compare the accounting program (Quickbooks) records and bank statements to the accounting records (receipts, deposits, check stubs etc) and form an opinion if the accounting is being done in compliance with Generally accepted accounting procedures (GAAP) and fairly represent the financial position of the district. The audit is a "spot check" and does not examine every single financial transaction. Usually, the larger transactions are examined closely and a few smaller transactions are checked. The directors should not rely on the annual audit to uncover fraudulent activity. The monthly comparison by a person other than the bookkeeper of the treasurer's report, bank reconciliation report from Quickbooks and the bank statements from the bank are just as likely to pick up a problem as the audit.

It should be noted that there are both governmental and non-governmental accounting standards. Pliocene Ridge CSD lacks staff with the expertise and software designed to keep the books in the Governmental Form of accounting. The auditors convert the Quickbooks data into GASB (Government Accounting Standards Board) compliant financial statements at the end of each fiscal year. These financial statements are an integral part of the annual audit report and are the only official financial statements published for the district. All other financial statements are for managerial purposes. See **Exhibit C** for more information on GAAP, GASB and Managerial Accounting.

PLIOCENE RIDGE CSD Accounting Structure

The district is set up with two "ZONES" or "FUNDS": Fire and Streetlights.

When the district was formed, the amount of money that had been historically paid to the two non-profit fire departments plus the amount historically paid for the streetlights for Alleghany and Forest City per year, was converted into a percentage of the tax base (property valuations) within the new district's boundaries. Moving forward, after district formation, the percentage of the tax base stays the same, but the dollar amount fluctuates from year-to-year as property values change.

The original dollar amount of \$28,444, was arrived at as follows: historical amount paid to each fire dept. (AVFD & PCVFD) \$10,000 **each** = \$20,000 for Fire Department Services plus \$5,162 in streetlight expense for Alleghany and Forest City, \$3,000 in estimated tax admin. fees and \$282 in indirect costs. Tax admin. covers State mandated fees that the County charges for distributing the tax revenue. This fee is subtracted before the money is sent to the district.

With district formation, the PRCSD Directors decided that the best way to keep the streetlight income and expense separate from the fire income and expense was to create a ZONE for the streetlights. The original streetlight allocation of \$5,162 was converted into a percentage of the Alleghany County Water District tax rate area. Going forward, that formula is used to determine the streetlight revenue each year. The County Auditor provides the dollar figure annually. Additionally, the streetlights are charged an equivalent portion of the County Management Fee each year.

The Streetlight Fund or Zone has its own budget section and a reserve fund that is used to capture any extra income at the end of each year, or conversely that can be used to make up any budget shortfalls. This ensures that Fire Fund money is not used to cover the streetlights.

The other Fund or Zone is FIRE/EMS. All monies allocated to the management of the Fire Departments is run through this section of the books. This is the main activity of the district.

Pliocene Ridge CSD's Directors are fiscally responsible for managing the district as a single entity. The formation of a district represents a pooling of resources. Even with the drawing of such a large (115 square mile) district boundary, at the time of formation the district did not generate enough tax revenue to support the original allocation of \$28,444. This is because about 66% of the land within the district's boundaries is Forest Service Land that does not generate tax revenue (exceptions explained in **Exhibit D**).

The PRCSD Board is responsible for spending funds where they are needed. The property that generates the funds does not get a prorated share. Generally speaking, if taxes were divided up by the properties that generated them, then critical infrastructure would not exist within the State of California. The purpose of pooling resources is to take advantage of that structure. The district's budget has two main sections: Fire and Streetlights. **Exhibit D** explains more about PRCSD tax valuations at the time of district formation.

Are the Fire Departments Separate or not?

There has been disagreement about whether the fire departments are separate entities. Both answers are right depending on how you look at it.

From a strictly legal perspective, the Alleghany and Pike City Fire Departments are not separate entities because they operate under the sole authority of Pliocene Ridge CSD, sharing the same tax ID #, bank accounts, main income source and administration.

Additionally, all operating agreements with other agencies (Mutual Aid and MOUs) are between Pliocene Ridge CSD and the other agencies. This is because the fire departments do not have individual authority to enter into agreements. They are not separate legal entities from the district, they are departments within the district.

That being said, the departments do have different names attached to their respective communities and are separate in certain ways, much in the same way that Forest Service Battalions are separate. They have their own call numbers, stations, apparatus and crew. They are paged out separately for certain calls outside of the district.

Additionally, Pliocene Ridge CSD earmarks money for the individual fire departments under certain circumstances including if a donor wishes to designate their donation to a specific department. (see Policy # 2010 FUNDS)

Excerpt for the California Special Districts Association Board Member Handbook

Required Trainings

Every special district board member is required by law to complete ethics training and sexual harassment prevention training at least once every two years.

Ethics training is mandated by Government Code Section 53235 et. seq., which is popularly referred to by its enacting legislation, AB 1234 (Salinas) of 2005. Special district board members must receive the required two-hour training within one year of their first day of service, and then every two years thereafter. A board member who serves more than one agency shall satisfy the requirements once every two years, regardless of how many boards they serve on.

Sexual harassment prevention training is mandated by Government Code 53237 et. seq., which was enacted by AB 1661 (McCarty) of 2016. Special district board members must receive the required two-hour training within the first six months of taking office, and then at least once every two years thereafter. End excerpt.

PRCSD's insurance company GSRMA offers these training online.

Directors are also required to fill out a Statement of Economic Interest Form every year by April 1st, for the preceding calendar year.

EXHIBIT A

Bylaws, Policies, Procedures, Ordinances, Motions, Resolutions

All six of these things are ways that the Board of Directors of a Special District can take action and/or give direction. If you are confused by these terms you are not alone!

Bylaws:

- Pertain specifically to the organization itself.
- Define the organization: what it is, its authority, what it does in the broadest terms.
- Lay-out the governing rules of the organization and method of proceedings.
- Explain the roles and duties of the Directors and Officers.
- May also include things such as: code of conduct and conflict of interest code.

Policies:

- Pertain to specific duties or situations
- Define a desired or required course of action.
- Allows the board and management to operate efficiently by making a single decision (policy) that applies across time, situations and individuals.
- Provide guidance regarding applicable laws and mandated requirements.
- Delegate responsibility/authority or provide the means to do so.

Procedures:

- Procedures explain how the corresponding policy will be implemented.
- In other words: Procedures are the “instructions” that go with the Policy.

Ordinances:

- Formal regulations that apply to the residents/customers and/or constituents of the District.
- Carry more weight than Policies, as they are “law” (violation is a misdemeanor in most cases).
- Similar to policies, they often contain “procedures” or instructions as to how they will be carried out.
- The process for adoption and repeal requires two meetings and public postings. (Requirements vary by the type of district and may also vary depending on the subject of the ordinance. For example: Calif. prop. 218 regulates changes to water rates).
- They require two signatures and document the vote of the board similar to resolutions.

All four things listed above are important because they help the District establish consistency and fairness both within the organization and in its dealings with the public.

Motion: A motion is the process by which a Board Member submits a proposed action for deliberation and voting during a board meeting.

Resolution: “A formal expression of the opinion or will of an official body” *Black’s Law Dictionary*. A resolution provides documentation as to why the action is necessary or desired in addition to documenting the action itself. They usually require the signature of both the Presiding Officer and the Clerk-of-the-Board. Legal council may sign as well.

Resolutions are often required in specific situations such as: signing leases or executing contracts. They are also often used for things such as showing appreciation, making an appointment, adopting policies or amending bylaws.

A resolution provides a stand-alone document; whereas, motions are incorporated into the entity’s meeting minutes.

EXHIBIT B

What is the difference between a Director and an Officer?

This is a common area of confusion. PRCSD Directors are appointed to a four-year term by the Sierra County Board of Supervisors. The PRCSD Board has five members.

The PRCSD Board of Directors then appoints the Officers annually, usually in January. The officer positions are President, Vice President, Secretary and Treasurer (Sometimes a Deputy Secretary is also appointed).

Directors may serve as Officers. The positions of Secretary and Treasurer may be held by individuals who are not Directors. Officers who are not Directors do not participate in the process of making motions and voting at meetings and are not board members.

EXHIBIT C

GAAP Vs. Governmental Auditing Standards by John Cromwell

Generally Accepted Accounting Principles and Governmental Auditing Standards differ and cover different aspects of the financial reporting process. GAAP defines how businesses, both public and private, prepare their financial statements. Governmental Auditing Standards are a series of rules that define how an independent agent is supposed to review a government agency's financial statements and internal processes.

Financial Reporting

Many businesses and governmental agencies issue financial statements at least once a year. Financial reports provide interested parties information about the issuing entity's financial condition and how it used its assets in the past year. These statements summarize the business's earnings, expenses, assets and liabilities. The three components of financial statements are the balance sheet, income statement and cash flow statement.

Audit Defined

An audit is a type of third-party review meant to assure the entity's management and outside concerned parties. An audit may focus on ensuring that the entity's financial records are accurate and complete. Another focus of an audit may be on the entity's internal controls. The internal controls are a set of procedures applied to all of the business's actions. These practices are meant to promote efficiency, prevent fraud and generate accurate financial information.

GAAP Explained

GAAP contain a series of guidelines that define how American companies are supposed to record their accounting data and present their financial statements. GAAP has been defined by the Financial Accounting Standards Board since 1973. The U.S. Securities and Exchange Commission requires that all American publicly-traded companies prepare their financial statements in accordance with GAAP. The American Institute of Certified Public Accountants requires that all CPAs prepare financial statements in accordance with GAAP. FASB statements are the current authority in GAAP. However, opinions by FASB s predecessor, the Accounting Principles Board, and the AICPA Accounting Research Bulletins that are not in conflict with FASB statements are authoritative as well.

GAS Defined

Government Auditing Standards determine how performance and financial audits of government offices are to be conducted. Also known as the Yellow Book, these rules are determined by the Government Accountability Office. In addition to government agencies, organizations that receive federal funding are required to participate in audits that are conducted in accordance with GAS. A GAS audit must be executed with due care by independent auditors. GAS covers audits of financial statements as well as audits of an entity's internal controls.

GAAP vs. GAS

Since GAAP defines financial reporting standards and GAS defines how government entities are audited, you may think that the two frameworks are closely related. However, GAAP does not apply to government entities. The Governmental Accounting Standards Board determines the financial reporting standards for state and local government entities. The Federal Accounting Standards Advisory Board determines the financial reporting standards for federal government agencies.

*References (8) Business Dictionary: Financial Statement, Audit, Internal Control, Government Auditing Standards
Accounting for Management: Generally Accepted Accounting Principles (GAAP): Financial Accounting Standards Board: Facts About FASB American Institute of CPAs: Audits Performed Under Government Auditing Standards
US Government Accountability Office: Government Auditing Standards*

EXHIBIT C continued

Managerial Accounting

As the name implies, Managerial Accounting is geared towards managing an entity's finances. It is not bound by GAAP or GAS (as outlined above) but is developed by financial managers to aid others in understanding and managing an entity's financial resources.

Governmental Accounting is more difficult for most people to analyze than regular business accounting. PRCSO board members often do not have a financial accounting background or education. Managerial accounting is geared towards helping board members, staff and the public understand the financial activities of the district.

In the case of Pliocene Ridge CSD, the budget, the monthly treasurer's report and to a lesser extent the financial statements that are generated from Quickbooks are all "managerial" in nature. (Quickbooks data is entered in compliance with GAAP and is modified to GAS by an outside accountant annually after year-end).

Both the budget worksheet and the monthly treasurer's report have been developed over a period of twenty years to present the district's financial data in an easy-to-understand format (development ongoing).

To-date, management has not found a Quickbooks report that presents the financial information as simply and clearly as the monthly treasurer's report. Based upon our experience, printing out reams of financial data from quickbooks has the opposite effect of that intended by overwhelming the recipient and making it impossibly tedious for them to understand let alone analyze what they are seeing.

The treasure's report is "cash based" and is limited by that. For example, there are financial transactions that do not directly involve cash, such as the County Administrative Fee that is taken before the funds are sent to PRCSO. That transaction is entered in Quickbooks as a Journal Entry (to both revenue & expense) and will not appear on the monthly treasurer's report but will be reflected on the interim financial statements printed from Quickbooks. The interim financial statements are printed on an accrual basis (vs cash basis).

EXHIBIT D

More information re: PRCSD property tax valuations & revenue

There are exceptions to the statement that “Federal land does not generate tax revenue” these include: mining claims that generate “unsecured” tax revenue and logging operations that generate timber tax.

Over the years, there has been considerable confusion about the tax valuations that fund Pliocene Ridge CSD. A quick glance at the LAFCO district formation documents gives the impression that at the time of district formation Pike’s Tax rate area generated 68% of local property tax revenue while Alleghany’s Tax rate area generated 15%. However, that is not correct. The 15% figure above represents only Alleghany proper (Alleghany Water District tax rate area 052-001) whereas the 68% figure represents tax rate area 052-000 which includes Pike but is much larger than the residential area of Pike alone. In fact, it stretches all the way to the eastern boundary of the district and includes Forest City. This is because Pike and Forest City do not have their own tax rate areas. Alleghany’s tax rate area is tied to the formation of the water district in 1939.

6/14/2023 Email from Sierra County Auditor Van Maddox

“Attached is the certified and recorded LAFCO document creating the tax shift. Page 9 of the pdf shows that Pike is in area 0 on the map. It stretches from the southern border of the county all the way to Milton Reservoir. Alleghany Water is area 1 on the map in the middle of tax rate area 0.

*I asked the Assessor to look at area 0 on the map and see how the taxable values are spread across the tax rate area 052-000. Pike encompasses most of the residential structures, but the rest of the area has large and small mining claims, also Sierra Pacific owns a lot of parcels all throughout tax rate 052-000, (on the map area 0). Forest City is also part of this area. **As far as taxable property both secured and unsecured the values in tax rate 052-000 (shown on the map as 0) is spread evenly across the tax rate area. Meaning as much is up around Alleghany’s end of the district as down in Pike.**”*

In other words: The western half of PRCSD generates about the same amount of tax revenue as the eastern half. While the Pike area has more private residences, the Alleghany/Forest area has more mining properties and timberland. The bottom line is that it doesn’t matter where the tax revenue is generated. The board is responsible for managing the district as a single entity.

DISCLAIMER: This handbook was written and compiled by PRCSD Secretary/Treasurer Rae Bell Arbogast in 2023/2024. Its contents do not represent legal advice. Laws and Codes change regularly.

Version 1 approved by the PRCSD Board of Directors on April 18, 2024