

3.0 METHODOLOGY OF FINANCIAL REPORTING

Computerized accounting of the financial activities of RPMWC is done with Intuit QuickBooks Pro 2015, updated to newest versions, and identified under the file name of RPMWC.qbw.

3.1 GENERAL PRACTICES

Accounts are recorded by the accrual method with monthly financial statements prepared. Financial statements are distributed to directors at each board meeting.

1. Preferences
 - a) The Chart of Accounts shall utilize a numbering system for identification of accounts.
 - b) Mail shall be retrieved daily from local postal delivery for processing.
 - c) All invoices from vendors for expenses shall be entered into the Accounts Payable account for tracking prior to payment.
 - d) All checks from customers for payment shall be entered in the Accounts Receivable account and processed daily for deposit into the checking account.
 - e) Disbursement checks shall be prepared with two signatures required for all distributions over the amount of \$5000.
 - f) Authorized signatures will be updated each year, if needed, to include the President, Treasurer, Vice-President, Administrator and one Administrative Assistant, and filed with the banking institution.

3.2 ACCOUNTS RECEIVABLE

1. INVOICES - Monthly invoicing to customers shall be entered as of the last day of each month for that month's water consumption. Invoices shall be prepared with data from the Excel spreadsheet "Waterbooks" and printed using the customized invoice designed using QuickBooks templates.
2. INVOICE CONTENTS – Multiple items shall be included on each customer's monthly invoice as follows:
 - a. Water Use – metered use, billed per Unit (One Hundred Cubic Feet)
 - i. Each customer is billed using a Tiered basis that is calculated on their number of owned water shares times the monthly allocation factor for

available water as determined and adjusted by the board from time to time

- b. Infrastructure Service Charge – a charge based on the size of customer’s meter(s) for future maintenance or replacement expense and to help stabilize operation income and adjusted by the board from time to time
 - c. Electrical Energy – SDG&E electrical charges for water extraction from well sites formulated to determine a cost per Unit
 - d. Vacant Lot Charge – a charge for water availability on parcels with no meter yet in place; Rate is set at \$20 per parcel per month
 - e. Reserve Assessment – when applicable, a surcharge applied for a specific period of time upon board approval for the replenishment of RPMWC reserve funds; calculated and added as a percentage (%) of the total invoice amount
 - f. Finance Charges –
 - i. Initial Late Penalty - a charge applied to delinquent customer accounts in excess of 30 days past due. Charge shall be accrued from the Invoice date and formulated at the rate of 10.0%, calculated on the outstanding balance
 - ii. Subsequent Late Fee – a charge of 1% per month for nonpayment of the delinquent amount due, including the 10% Late Penalty
3. STATEMENT – A Customer shall receive a Statement rather than an Invoice when their account balance totals more or less than the current month’s Invoice amount. A Customer with a delinquent balance of more than 45 days shall be notified with the current month’s Statement of a deadline for payment in full to avoid water service termination.
4. LATE NOTICE – If a customer does not honor the deadline for delinquent payment as noted on a Statement, a “Notice of Termination” will be posted on the delinquent property with amount due, address for payment drop-off, date and time deadline. Customer will be assessed a Termination Service Charge if payment is not received and a lock off is directed.
- a. Termination Service Charge – delinquent customers receiving a Termination Notice shall be charged a fee of \$75 if water service shutoff is processed. Said amount must be paid, together with the entire delinquent balance, before service will be re-connected.
5. LOCK OFF - If deadline for payment passes, Utility personnel shall be instructed to terminate the meter service by locking the meter box after closing the valves and posting a “Locked” notice on the meter.

- a. Lock Off Charge – An amount of \$75 shall be assessed to accounts for which the meter must be locked off – whether due to nonpayment of customer balance or at customer’s request
6. RE-CONNECTION OF LOCKED METER – A delinquent customer who has had water service terminated shall be charged a \$75 re-connection fee and be required to bring the delinquent account to a \$0 balance prior to reinstating water service.
7. DEPOSIT ON ACCOUNT - At the discretion of the Administrator, a deposit of undetermined amount, but not more than the previous 12 month average invoice amount, shall be required for any delinquent customer that has received more than three (3) “Notice of Termination” postings on the property.
8. RECEIPTS – Checks received from customers shall be collected from the office mail box by an employee other than the employee processing the final deposit. The Administrator shall: 1) open all payment envelopes; 2) determine total deposit amount with two printed, adding machine tapes; and, 3) endorse on the back with “for deposit only”. The Administrative Assistant shall then: 1) be given all receipts for computer input to Accounts Receivable; and, 2) print a list of receipts.
9. DEPOSIT – The Administrative Assistant shall compare the printed adding machine tape with the list of receipts to ensure all funds reflected were deposited. The envelope with receipts shall then be either mailed through the US Postal System or hand delivered to the local banking institution.
10. OTHER CHARGES – miscellaneous charges
 - a. Lien Recording/Lien Releasing Charge – a Lien will be recorded upon the property title for delinquent customer accounts in excess of 60 days past due and assessed a \$35 charge for the recording; once paid in full, a Lien Release will be recorded
 - b. Returned Check Charge – a charge of \$20 plus any bank fees will be applied to customer accounts for a payment check returned by the bank for insufficient funds
 - c. Transfer of Ownership Charge – a charge of \$35 will be reported to the escrow company handling the transfer of property for the cancellation of existing water shares and the recording of new water shares in the buyer(s)’ name
 - d. After Hours Charge – Customers who request services after hours or on weekends for other than emergency services will be assessed according to the Utility and Equipment Charge Rate with a minimum charge of \$85. The Company’s normal operating hours are 7:00 AM to 3:30 PM, Monday through Friday, excluding holidays (See attached Charge Rate sheet)

3.3 ACCOUNTS PAYABLE

1. **BILLS** - Invoices or Statements received from Vendors shall be opened, reviewed and approved by the Administrator prior to processing for payment.
 - a. Invoices from vendors will be kept in a file identified as "TO BE ENTERED" in the locking file cabinet. They will be categorized with closest "Due Date" on top.
 - b. Once a week, the Administrative Assistant shall enter invoices into the Accounts Payable with the appropriate expense account applied.

2. **PAYMENTS**
 - a. Printed disbursement checks shall be signed by the Administrator and returned to the Administrative Assistant for mailing.
 - b. Payment voucher shall be stapled to the Vendor's invoice or statement and filed alphabetically in the Accounts Payable file cabinet.

3. **REVIEW**
 - a. A report of disbursements will be created that shows the check number, the date of payment, the Payee, the amount of payment, and the purpose of the payment on a monthly basis. This report shall be reviewed and approved by the Board Treasurer and the Administrator at the end of each month with the signed approval on file with the bank reconciliation reports.

3.4 SHARED EXPENSES

Under the ***Administrative Services Agreement Between the Pauma Valley Community Services District and Rancho Pauma Mutual Water Company***, dated and signed by each board president in December 2009, the expenses of the services provided by Pauma Valley Community Service District administration, employees and staff, to the management and utilitarian functions required by the water company shall be reimbursed to the Pauma Valley Community Services District at the agreed cost efficiency rate of 50% or as adjusted periodically. Reimbursement checks shall be made payable to Pauma Valley Community Services District and include a summarized breakdown of each category of expense. Reimbursement payment shall be made by the 20th of each month for the preceding month and identified as "_____(month)Payables".

1. MANAGEMENT COSTS – After the last employee payroll is processed each month by the Pauma Valley Community Services District, a total amount to be debited to Account 620.1 (Management Fee) shall be calculated and include the following:
 - a. Salaries – 50% of wages for Administrator, Office Staff; 65% of Utility Workers
 - b. Payroll Taxes - 50% of payroll taxes for Administrator, Office Staff; 65% of Utility Workers
 - c. PERS - 50% of retirement costs for Administrator, Office Staff; 65% of Utility Workers
 - d. Workers Comp Insurance - 50% of workers compensation insurance costs for Administrator, Office Staff; 65% of Utility Workers
 - e. Group Health - 50% of health care costs for Administrator, Office Staff; 65% of Utility Workers

2. OPERATING EXPENSES – the office space, and all associated expenses relating to the operation and maintenance of that space, shall be divided at the agreed cost efficiency rate of 50% and shall include, but not be limited to, the following:
 - a. Monthly lease expense
 - b. Utilities of electrical, propane, water
 - c. Landscape maintenance
 - d. Interior and Exterior repairs and maintenance, including painting
 - e. Generator maintenance and repairs
 - f. Interior cleaning service

3. MISCELLANEOUS EXPENSES – Various services, supplies and equipment are more easily purchased in conjunction with the need of the sewer district. Such expenses shall then be divided at the agreed cost efficiency rate of 50% and shall include, but not be limited to, the following:
 - a. Office supplies
 - b. Postage
 - c. Uniforms
 - d. Telephones and Cell phones
 - e. Building and Janitorial sundries
 - f. Irrigation supplies
 - g. Vehicle repairs
 - h. Vehicle fuel

3.5 ANNUAL AUDIT

An audit of the financial records of the RPMWC by an independent, Certified Public Accountant is conducted in accordance with auditing standards generally accepted in the United States of America each year after the close of the fiscal year's accounting records on October 31st. Finalized reports are distributed to directors and available for distribution to any shareholder requesting such.