

FINANCIAL POLICIES

ACCESS TO RECORDS

It is NACWA's policy to allow inspection of the financial records of the organization including:

- Internal Revenue Service (IRS) Form 990, in accordance with IRS guidelines
- Original application for tax-exempt status
- Audited financial statements

ACCOUNTING METHOD

NACWA follows the accrual basis of accounting where revenues are recognized when they are earned and expenses when they have been incurred.

ACCOUNTS RECEIVABLE WRITE-OFF PROCEDURES

NACWA will assure that all available means of collecting receivables have been exhausted before write-off procedures are initiated. All receivables deemed uncollectible must be approved by the Chief Executive Officer before write-off implementation. Invoices written off will be treated as a reduction of the appropriate revenue account. The write-off of receivables that exceed \$10,000 (in the aggregate) annually will be disclosed to the Executive Committee.

ACKNOWLEDGEMENT LETTERS

NACWA will acknowledge the receipt of funds provided from outside entities in support of specific initiatives.

ANNUAL SICK/VACATION ACCRUAL

NACWA will accrue the value of annual sick leave liability due employees in the last month of the fiscal year. Any vacation leave authorized by the Chief Executive Officer to be carried over will also be accrued.

AUDITS

- **Audited Financial Statements**
NACWA will distribute the audited financial statements to the Board of Directors and to organizations entitled to receive a copy because of contractual agreement.
- **Selection of Firm**
NACWA will contract auditing services to a selected firm for periods not to exceed five years. Selection of the auditing firm will be made by the Board of Directors upon recommendation of the Audit Committee. NACWA staff will interview at least three firms prior to making a recommendation to the Audit Committee. Auditing contracts must provide for a termination on the part of NACWA should service not meet expectations.
- **Review of Draft Audit/Management Letter**
It is NACWA's policy that the Audit Committee review the draft audit and management letter with representatives from the auditing firm. The Audit Committee will then oversee the appropriate action required to correct deficiencies addressed in the management letter.

BANK RECONCILIATION

All NACWA bank statements will be opened by the Chief Executive Officer or Deputy Executive Director who will do an initial review of the checks that cleared during the month. Within 24 hours, the Chief Executive Officer or Deputy Executive Director will forward the bank statements to the Managing Director of Finance for bank reconciliation.

BOARD DESIGNATED FUNDS

It is the policy of NACWA that funds designated by the Board for a specific purpose (e.g., Targeted Action Fund, Operating Reserves, and Building Improvement Reserves) will be considered unrestricted net assets and shall be included with footnotes to the financial statements as supplemental information.

CAPITALIZATION CUTOFF POINTS

NACWA will expense fixed assets in the period purchased if these assets cost \$1,000 or less individually. Fixed assets costing in excess of \$1,000 individually will be capitalized and depreciated in accordance with NACWA's policies. Repairs and improvements to real property will be capitalized if they cost in excess of \$1,000 individually.

CHECK SIGNERS

It is NACWA's policy to give check-signing authority to the following positions:

- Chief Executive Officer
- Deputy Executive Director

CONTRACT SIGNING AUTHORITY

The Chief Executive Officer has authority to sign contracts for all commitments which have been accounted for in NACWA's budget. If the expenditure is not accounted for in the approved budget, then the Executive Committee must approve the item for which the contract is intended. The Chief Executive Officer may delegate this authority at his or her discretion but will remain responsible for all contracts signed on behalf of NACWA.

CONTROL OVER CHECKS, CASH, AND MAIL

NACWA will safeguard all money received by providing tight internal control procedures as required by NACWA's auditors. The controls utilize separation of duties of NACWA staff who are responsible for or come into contact with checks and/or cash.

CREDIT CARDS

NACWA will issue credit cards to the following individuals:

- Chief Executive Officer
- Deputy Executive Director
- All Director/Manager level staff at the discretion of the Chief Executive Officer

Credit card expenses must be accounted for on regularly submitted expense forms provided by NACWA. Failure to do so will result in revocation of the card and an invoice issued for the amounts unaccounted for.

DELINQUENT/SUSPENDED MEMBER PROTOCOL

NACWA annual dues invoices are mailed to Publicly Owned Treatment Works, Conveyance System & Stormwater Management Agencies, Corporate Affiliates, Legal Affiliates, and Supporting Affiliate members in mid-September. To promote member retention through personal outreach and to

efficiently manage delinquent membership payments, the following dues collection protocol will be implemented for members who have not yet paid their current year dues:

- December 15 – National Office sends reminder e-mail, acknowledging members who budget by calendar year, with a copy of the invoice.
- January 15 – National Office sends a follow-up letter, with a copy of the invoice.
- February 15 – April 30 – National Office places individual telephone calls to members that have not yet renewed, seeking to secure a firm payment date.
- May 1 – National Office suspends service to members that have remained in arrears and have not made arrangements to pay, and sends a letter encouraging the agency to act to reinstate their membership in the Association.
- Reinstatement – Members that contact the National Office after receiving the suspension notice will be reinstated upon receipt of payment for a full dues year.
- Executive Discretion – The Chief Executive Officer may authorize exceptions to this protocol, should special circumstances warrant.

DEPRECIATION

NACWA uses the straight-line method of depreciation. Fixed assets purchased over \$1,000 are depreciated and fixed assets purchased under \$1,000 are expensed.

- Fixed Assets consist of the following:
 - Furniture and Fixtures – depreciated on a ten year basis from the time the item is placed in Service.
 - Computer Equipment – depreciated on a three year basis, or estimated life of the asset, from the time of installation.
 - Computer Software – depreciated on a four year basis, or estimated life of the asset, from the time of installation.
 - Office Equipment – depreciated on a five year basis, or estimated life of the asset, from the time of installation.
 - Capitalized Lease – depreciated over the term of the lease from the time the item is placed in service.
 - Building – depreciated over the life of the building (50 years).
 - Building Improvements – new improvements are depreciated by the time remaining on the life of the building from the time the improvement is completed and in service. Short term building improvements will be depreciated over the estimated life of the improvement as is determined on a case-by-case basis by the Managing Director of Finance.
- All items (even if fully depreciated) will remain in the fixed asset ledger until they are disposed of.
- The Managing Director of Finance conducts an annual review of fixed assets to determine if the depreciation schedule of some assets needs to be adjusted. This is determined on a case-by-case basis and adjustments are made to meet the expected life of the asset.
- The current value of an asset is determined by the following:

$\text{Purchase Price} - \text{Accumulated Depreciation} = \text{Net Realizable Value (NRV)}$

EMPLOYEE COMPENSATION

The Chief Executive Officer is authorized and directed to establish employee compensation schedules with the following guidelines:

- The Chief Executive Officer shall manage all staff compensation and reimbursement to conform in the aggregate with the financial resources of the Association as reflected in the annual budget which has been duly adopted (or amended) by the Board of Directors.
- The Chief Executive Officer shall fix and determine the salary of all employees within the salary range established for each position. Adjustments in salary shall be made in accordance with the Association's Performance Evaluation System, subject only to the approval of the Executive Committee.
- The Executive Committee shall annually review salary ranges for each staff position and shall be apprised of changes in job responsibilities.

EXPENSE REIMBURSEMENT

The Chief Executive Officer is authorized and directed to establish expense reimbursement policies in accordance with the following guidelines:

- Expenses incurred by employees and reimbursed by the Association are properly authorized.
- Employees are authorized to incur only such expenses as are reasonable and necessary to the performance of their duties, their professional development and that of the Association.
- Where employees are authorized to incur expenses directly for the account of the Association, whether through the use of credit cards or otherwise, the employees are instructed to limit such use to duly authorized Association expenses, and not commingle in any way their personal expenses with such reasonable and necessary business expenses.

All expense declarations must be made on a form provided by the Finance department and must be received within 10 business days of the conclusion of the trip or the date the expense was incurred. Failure to submit expense reports within a reasonable time period may result in a suspension of travel authorization and the invoicing of unaccounted for expenses. Expenses submitted more than 30 days after the end of the fiscal year may be denied reimbursement.

FISCAL YEAR

NACWA's fiscal year is from October 1 through September 30.

FIXED ASSET DISPOSAL

Fixed assets that are disposed of, sold, or cease to exist will be removed from the fixed asset ledger. If the fixed asset is not fully depreciated, the remaining value of the asset will be written off in the current year after approval by the Chief Executive Officer.

FUNCTIONAL EXPENSE POLICY

NACWA allocates all expenses between "program", "administrative" and "fundraising" (if applicable) categories at the end of the fiscal year. Expenses are allocated based on direct costs if they are readily identifiable or on the percentage of annual administrative salary expense divided by total salary expense

(per NACWA's timesheets) or a combination of the two. Additional details on the methodology of allocation for specific line items are provided in NACWA's Cost Allocation spreadsheet.

INTERNAL REVENUE FORM 1099

NACWA will complete IRS Form 1099 for all individuals and vendors receiving compensation or payment in amounts determined by IRS requirements.

INVESTMENTS

- General Plan Information

Investments made on behalf of NACWA shall be at the discretion of the Chief Executive Officer within the overall framework established by the Board of Directors. The Chief Executive Officer shall retain the services of an investment advisory firm to actively manage investment funds within the policy guidelines. All investments made on behalf of NACWA are to be made in the name of the organization. These investments cannot be pledged as collateral without the prior approval of the Board of Directors. Securities maintained on premises, if any, shall be kept in safes, vaults or other devices limiting access to the authorized custodian. No holding may account for more than 20% of the entire portfolio (General Account plus Operating Reserve Account) at market.

- Investment Policy Review Procedures

The authorized custodian (Chief Executive Officer) shall maintain detailed monthly schedules of investments (description of security, serial numbers, cost and selling price) and revenue earned from investments, and provide a summary of this information to the Board of Directors at each of their regularly scheduled meetings. The schedules are to be reconciled to the broker statements and general ledger on a monthly basis. The *Investment Policy* will be reviewed and approved by the Board of Directors annually.

- Investment Guidelines – General Account

NACWA's General Account is a separate investment account. All available funds, in excess of funds required for daily operations, and funds allocated to the Operating Reserve Investment Account will go to this account. All investment income earned on this account will go to the current year General Fund Investment Income account. Assets should be primarily managed as a fixed income portfolio comprised of bonds, dividend producing instruments and cash equivalents. Investments should be managed in a conservative fashion defined by moderate rates of return, diversification, and low volatility.

- Investments may include AA Government Bonds or above, U.S. Government Securities, Certificates of Deposit (CDs), Exchange Traded Funds (ETFs), diversified bond mutual funds, A1/P1 commercial paper and money market accounts.
- Funds not to exceed \$250,000 may be held in the investment Money Market or Cash Account on a short-term basis for re/investment or transfer to NACWA's bank operating account.
- Investments that include options, start-up companies, speculative stocks and equity mutual funds are prohibited.

<u>Asset Class</u>	<u>Range</u>	<u>Target</u>
Domestic Equity	0%	0%
International Equity	0%	0%
Fixed Income	75% - 100%	100%
Cash Equivalent	0% - 25%	0%

- **Investment Guidelines – Operating Reserve Account**

NACWA's Operating Reserve Account is a separate investment account. The allocation to this account will be equal to the fiscal year end total Operating Reserves balance. The account will be adjusted annually to equal the current fiscal year end total Operating Reserve balance. All investment income earned on this account will go to the current year General Fund Investment Income account. The primary objective in making investments for the Operating Reserve Account is to grow assets at a rate in excess of the U.S. ten-year Treasury bond while maintaining a risk parameter less than that of the U.S. ten-year Treasury bond. The account will be reviewed and re-balanced, as necessary and at least quarterly, to stay within targeted ranges.

- Investments may include AA Government Bonds or above, U.S. Government Securities, Certificates of Deposit (CDs), mutual funds, Exchange Traded Funds (ETFs), Separately Managed Accounts (SMA), variable annuities and money market accounts.
- Funds not to exceed \$250,000 may be held in the investment Money Market or Cash Account on a short-term basis for re/investment or transfer to NACWA's bank operating account.
- Investments that include options, start-up companies, speculative stocks and speculative mutual funds (for example single country or sector funds) are prohibited.
- All equity accounts must have broad economic sector representation.

<u>Asset Class</u>	<u>Range</u>	<u>Target</u>
Domestic Equity	10% - 30%	20%
International Equity	0% - 10%	5%
Fixed Income	50% - 90%	70%
Cash Equivalent	0% - 25%	5%

LOAN PROHIBITION

It is the policy of NACWA to prohibit loans to employees, members or others under all circumstances.

MEMBERSHIP DUES

NACWA's annual membership dues are payable at the beginning of the fiscal year. Dues received provide membership in the Association for the fiscal year and are not refundable upon termination of membership. Members who join NACWA after the first quarter of the fiscal year are offered a prorated dues amount. Prorated dues are calculated based on a quarterly percentage of the fiscal year dues amount. Dues may be paid by check, wire transfer or credit card. For credit card payments, a 3% service charge will be assessed for amounts above \$1,000. New member dues must be received within 45 days of joining NACWA. Dues not received within this time period will result in a cancellation of the membership.

PETTY CASH DISBURSEMENTS

NACWA will maintain a petty cash fund of \$500. It is the responsibility of the Managing Director of Finance and Staff Accountant to ensure that the petty cash fund is under lock and key at all times.

Disbursements from the petty cash fund may only be made for approved expenditures. A receipt must accompany every disbursement. The receipt must be signed by the person receiving the cash and the person disbursing the cash.

PROCUREMENT POLICIES

- Targeted Action Fund

With the exception of pre-approved funds maintained in the Government Affairs Rapid Response Fund and General Legal Support Fund, NACWA utilizes a Request For Proposal (RFP) process when identifying and selecting qualified firms and providers for consultant contracts funded through the Association's Targeted Action Fund; however, the Chief Executive Officer may sole source services for Targeted Action Fund projects provided that the associated rationale and criteria are reviewed and approved by the Executive Committee prior to consultant selection. In evaluating the expertise and capability of consultants, recommendations provided by NACWA's Standing Committees shall be taken into consideration.

- Federal Cooperative Agreements and Grants

NACWA shall follow federal procurement policies with regard to any procurement action undertaken in support of cooperative agreements and/or grants from the federal government. See NACWA's *Procurement Standards for U.S. Environmental Protection Agency Federal Awards* for detailed information on these policies.

- Association Business and Activities

In accordance with NACWA's *Bylaws*, the Chief Executive Officer has the authority to hire additional employees, consultants, and other appropriate personnel to manage the business and activities of the Association.

REFUNDS

NACWA will make refunds in the same manner as the funds were originally received. For example, credit card payments are refunded as credits; checks refunded by check.

RESERVE POLICY

- Operating Reserve

Operating reserves are targeted at a minimum level of one million dollars (\$1,000,000). Available reserves shall be computed as the total of all undesignated net assets and designated cash reserves, and Line of Credit funds. Fifty percent (50%) of the targeted reserve level should be maintained as readily available liquid assets. Readily available liquid assets are defined as cash, long-term investments and short-term investments. Line of Credit funds can only be utilized, subject to the approval of the Board of Directors, as deemed necessary. Any surplus operating reserves (amounts in excess of the target level of \$1M) can be utilized, subject to the approval of the Board of Directors, as deemed necessary.

- Building Improvement Reserve

NACWA shall maintain a Building Improvement Reserve fund to be utilized for improvements and renovations and upgrades to the National Office building as deemed necessary by the Chief Executive Officer and included in the Board approved annual budget. Building Improvement

Reserves are targeted at a level of two hundred thousand dollars (\$200,000). Allocations or transfers to the Building Improvement Reserve shall be approved by the Board of Directors.

TIME SHEETS

All NACWA employees in both the exempt and non-exempt categories must complete and sign time sheets for each pay period. Completed timesheets must be submitted within 5 working days of the conclusion of each pay period. Time sheets must be signed by the employee's immediate supervisor, or in the case of the Chief Executive Officer, by the Deputy Executive Director.

TRAVEL

NACWA will reimburse staff for all reasonable and appropriate business expenses for authorized NACWA travel. All travel will be reimbursed based on actual business-related costs incurred, with receipts required for amounts over \$15. All travel reimbursement requests must be submitted on a NACWA *Expense Report* form. This form must be signed by the traveler and approved by a NACWA staff member at supervising director level or above. All receipts should be on a separate sheet of paper (segregated by day) and attached to the Expense Report. The following are considered to be non-reimbursable expenses. Exceptions may be made at the discretion of the Chief Executive Officer.

- First or Business Class Airfare
- Airfare Change Ticket Fees (due to personal preference)
- ATM Fees
- Dry Cleaning
- Meals for Spouses/Significant Others and/or Family Members (except at meeting events where members are invited)
- Personal Entertainment (i.e., hotel movie rentals, books, magazines)
- Personal Grooming Products

NACWA will issue travel advances to employees who have received proper travel authorization. Travel advances are considered accounts receivable from those receiving them and the proper travel account is charged when reimbursements for travel expenses are paid. All travel advance requests must be submitted on a NACWA *Travel Requisition* form. The usual amount of the travel advance is \$45 per day (exceptions may be made on a case-by-case basis). The *Travel Requisition* form must be approved by the Chief Executive Officer or Deputy Executive Director.

Receipts are required for all items over \$15. If an employee loses a receipt or was unable to obtain a receipt, the employee must complete a NACWA *Lost Receipt Form* noting the vendor, amount, date, and reason for no receipt. Reimbursement for items with no receipt will be determined on a case-by-case basis.

Per IRS regulations, the business purpose of all meals in excess of \$75 must be documented. The attendees and purpose of the meal must be noted on the bottom section of both the *Expense Report* and *American Express Voucher Form*.

WHISTLEBLOWER POLICY

A whistleblower as defined by this policy is a director, officer or employee of NACWA who reports an activity that he/she considers to be illegal or dishonest to one or more of the parties specified in this Policy. The whistleblower is not responsible for investigating the activity or for determining fault or corrective measures; appropriate Association officials are charged with these responsibilities.

Examples of illegal or dishonest activities are violations of federal, state or local laws; billing for services not performed or for goods not delivered; misuse of the organization's resources; and other fraudulent financial reporting.

If an employee has knowledge of or a concern regarding illegal or dishonest fraudulent activity, the employee is to contact his/her immediate supervisor or the Chief Executive Officer. The employee must exercise sound judgment to avoid baseless allegations. An employee who intentionally files a false report of wrongdoing will be subject to discipline up to and including termination.

Whistleblower protections are provided in two important areas -- confidentiality and against retaliation. Insofar as possible, the confidentiality of the whistleblower will be maintained. However, identity may have to be disclosed to conduct a thorough investigation, to comply with the law and to provide accused individuals their legal rights of defense. The Association will not retaliate against a whistleblower. This includes, but is not limited to, protection from retaliation in the form of an adverse employment action such as termination, compensation decreases, or poor work assignments and threats of physical harm. Any whistleblower who believes he/she is being retaliated against must contact the Chief Executive Officer immediately. The right of a whistleblower for protection against retaliation does not include immunity for any personal wrongdoing that is alleged and investigated.

All reports of illegal and dishonest activities will be promptly submitted to the Chief Executive Officer who is responsible for investigating and coordinating corrective action. In the event that the allegations involve the Chief Executive Officer, the Deputy Executive Director, with the assistance of the Association's President, will investigate the reported misconduct. All reports will be promptly investigated and appropriate corrective action will be taken if warranted by the investigation.