

RESOLUTION NO. 700

FINANCIAL MANAGEMENT POLICY

WHEREAS, the District finances are regulated by RCW 57.20 and over many years the District has adopted several policies to maintain the financial health of the District, and

WHEREAS, the District has issued bonds from time to time and the District's bond underwriter has recommended the District have a central reference point for policies critical to the continued financial health of our local government and rate payers, and

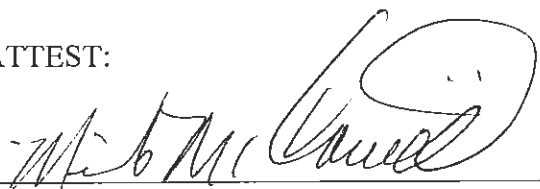
WHEREAS, it is in the best interest of the District's rate payers to have a clear and comprehensive Financial Management Policy, NOW THEREFORE

BE IT HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS of the East Wenatchee Water District does adopt a Financial Management Policy as attached hereto.

ADOPTED, by the BOARD OF COMMISSIONERS of the EAST WENATCHEE WATER DISTRICT, Douglas County, Washington at a regular meeting thereof, this 10th day of April 2017.


Terry Barnes, President

ATTEST:


Mike McCourt, Secretary

East Wenatchee Water District

Financial Management Policies

Statement of Purpose

The financial integrity of East Wenatchee Water District (the “District”) is of utmost importance. To discuss, write, and adopt a set of financial management policies is a key element to maintaining this integrity. The set of policies within this document serve as a central reference point of the most important of our policies, which are critical to the continued financial health of our local government.

Written, adopted financial management policies have many benefits, such as assisting the elected officials and staff in the financial management of the municipality, saving time and energy when discussing financial matters, instilling public confidence, and providing continuity over time as elected officials and staff members change. While these policies will be amended periodically, they will provide the basic foundation and framework for many of the issues and decisions facing the East Wenatchee Water District. They will promote sound financial management and assist in the District’s stability, efficiency, and effectiveness.

Financial Goals

Our financial goals seek to:

- Ensure the financial integrity of the municipality
- Manage the financial assets in a sound and prudent manner
- Improve financial information for decision makers at all levels:
 - Policy makers as they contemplate decisions that affect the municipality on a long-term basis
 - Managers and staff as they implement policy on a day-to-day basis
- Maintain and further develop programs to ensure the long-term ability to pay all costs necessary to provide the level and quality of service required by the citizens
- Maintain a spirit of openness and transparency while being fully accountable to the public for the District’s fiscal activities

Financial Policies

East Wenatchee Water District financial management policies address the following major areas:

- General Policies
- Accounting Policies
- Revenue Policies
- Expenditure Policies
- Operating Budget Policies
- Capital Management Policies
- Disclosure Policies
- Reserve Policies
- Debt Policies
- Communication Policies
- Compliance Policies
- Investment & Cash Management Policies

These policies may be addressed in this policy or separate policies, including but not limited to a Post-Issuance Compliance Policy for Bonds.

I. General Policies

1. East Wenatchee Water District may adopt resolutions to set financial policies to assure the financial strength and accountability of the District.
2. The Manager shall develop administrative directives and general procedures for implementing the Board of Commissioners' financial policies.
3. All Departments will share in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and programs will be developed to reflect current policy directives, projected resources, and future service requirements.
4. To attract and retain employees necessary for providing high quality services, the District shall establish and maintain a competitive compensation and benefit package commensurate with the public and private sectors.
5. Efforts will be coordinated with other governmental agencies to achieve common policy objectives, share the cost of providing governmental services on an equitable basis, and support favorable legislation at the state and federal level.
6. Initiate, encourage, and participate in economic development efforts to create job opportunities and strengthen the local economy.
7. The District will strive to maintain fair and equitable relationships with its contractors and suppliers.

II. Revenue Policies

Design, maintain, and administer a revenue system that will assure a reliable, equitable and sufficient revenue stream to support desired services.

General Revenues

1. Current expenditures will be funded by current revenues. The District will try to maintain a stable revenue system to protect programs from short-term fluctuations in any single source.
2. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies or reliable economic forecasters when available.
3. General Fund and other unrestricted revenues will not be earmarked for specific purposes, activities or services unless otherwise authorized by Board of Commissioners or required by law, or generally accepted accounting practices (GAAP). All nonrestricted revenues will be deposited into the General Fund and utilized by the District in accordance with the approved budget and/or Board of Commissioners' approval.
4. If revenues from "one-time" or limited duration sources are used to balance the annual operating budget, it is to be fully disclosed and explained at the time the budget is presented. It is the District's goal to not rely on these types of revenues to balance the operating budget.
5. The District will not use deficit financing and borrowing to support on-going operations in the case of long-term (greater than one year) revenue downturns. Revenue forecasts will be revised and expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered.
6. The District will follow an aggressive and professional policy of collecting revenues. When necessary, discontinuing service, small claims court, collection agencies, foreclosure, liens and other methods of collection, such as imposing penalties, collection and late charges, may be used.

Fees and Charges

7. Enterprise and operations will be self-supporting.
8. The District will maximize the use of service users' charges and subsidies from other District funds, for services that can be identified and where costs are directly related to the level of service provided.
 - a. Charges for providing utility services shall be sufficient to finance all operating, capital outlay, and debt service expenses of the District's enterprise funds, including operating contingency, planned capital improvements, and reserve requirements.
 - b. User charges shall fund 100% of the direct cost of development review and building activities. User charges include, but are not limited to, administration, engineering, inspection, permitting and construction fees.
 - c. Other reimbursable work performed by the District (labor, meals, contracted services, equipment and other indirect expenses) shall be

billed at actual or estimated actual cost.

- d. Charges for services shall accurately reflect the actual or estimated cost of providing a specific service. The cost of providing specific services shall be recalculated periodically, and the fee adjusted accordingly. The District shall maintain a current schedule of fees and charges, showing when the fees were last reviewed and/or recalculated. Fees and charges, and utility rates will be reviewed annually.
- f. The District will consider market rates and charges levied by other municipalities for like services in establishing rates, fees, and charges.
- g. Certain fees, such as rental and lease fees, will be based upon market conditions and are not subject to the limitations of cost recovery.

Grants and Gifts

- 9. Grant funding for programs or items which address the District's current priorities and policy objectives should be considered to leverage District funds. Inconsistent and/or fluctuating grants should not be used to fund on-going programs.
- 10. Before accepting any grant the District shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant.
- 11. All grants and other federal and state funds shall be managed to comply with the laws, regulations, and guidance of the grantor, and all gifts and donations shall be managed and expended in accordance with the wishes and instructions of the Grantee.

General Funds

The General is the primary operating account, and used for the payment of operating and maintenance expenses, including labor costs related to the day-to-day operation of the District.

Capital Project Funds

The Construction, Capital, DWSRF & PWTF, are used for purchase or construction of capital projects and may be used for debt payments if approved by the Board.

Debt Service Funds

Revenue Bond Accounts are maintained to pay the principal and interest payments associated with bond issues. Monies are transferred semi-annually from the General and Capital Funds in the amount of the debt service payment(s) to the related Revenue Bond Account.

Bond Reserve Fund

The Bond Reserve Fund is maintained to meet bond covenants and to provide an additional source to draw upon if an unforeseen revenue decrease occurs.

Cash Drawer

The District's cash drawer shall be balanced and funds deposited to the Depository Account daily. Any out-of-balance conditions (cash over/short) shall be immediately reported to the Office Manager, reviewed, and posted. Cash over/short conditions of more than \$100 shall be reported to the Manager or Controller immediately. The Board will be notified no later than the next regular Board meeting. The District shall provide a numerically sequential receipt and a unique transaction batch number for all financial transactions.

Public Works Trust Fund Funds

The Public Works Trust Fund (PWTF) Account is maintained to pay the principal and interest payments associated with long term loans (i.e., PWTF and the DWSRF). Monies are transferred, on an annual basis, from the General Fund account in the amount of the annual debt payment for long-term debt to the Project Account.

Depository Account

All monies collected from customers are receipted and deposited into the Depository account at Cashmere Valley Bank. All monies collected shall be transferred to the Douglas County Treasurer on a weekly basis. All District funds received shall be deposited at Cashmere Valley Bank within one business day of receipt, except when staffing levels are inadequate to timely make such deposits, but in such event such deposits shall be made as soon as possible. The Manager, Controller, or Board approved designee, is authorized to transfer funds from the Depository Account to the County Treasurer.

Petty Cash Fund

The District maintains a Petty Cash Fund in the amount of \$300.00, as established by resolution. The Petty Cash Fund is reimbursed through the District's voucher process. Reimbursements to the Petty Cash Fund may be made from all funds with the exception of the restricted funds depending on the nature of the expense. The Controller, or Board approved designee, shall act as custodian of the Petty Cash Fund. Petty Cash vouchers shall be limited to the purchase of: minor office supplies, small tools and equipment, postage, and other de minimis operating expenses.

Fund Balance and Maintenance of Minimum Reserve Levels

The District shall strive to maintain adequate fund balances (reserves) in order to provide sufficient cash flows to meet operating and capital expenses, while also providing the financial ability to address economic downturn and system emergencies. Operating expenditures shall include salaries, benefits, supplies, professional services, intergovernmental and interfund expenses, capital outlays and transfers.

1. Rate Stabilization Fund – The District's Rate Stabilization Account in the amount

\$575,000 was set up to buffer the impacts of any future revenue shortfalls. A reduction in revenue can occur for a variety of reasons, including cool temperatures, wet weather events, mandatory drought restrictions, an economic downturn, and increased conservation and efficiency. The Rate Stabilization Account was set up to ensure fiscal solvency during such times.

2. Bond Reserve Fund – The Bond Reserve Fund is a restricted fund and is legally required for specific debt issues. Bond Reserve Funds will be established in accordance with the legal covenants of the debt issue. The Bond Reserve Fund may be funded from bond proceeds, purchase of a Surety Policy from a bond insurance company, or surplus cash that is available.
3. Unrestricted Cash Reserve – The District’s goal is to maintain an unrestricted cash reserve that is equivalent to 6 months of operating expenditures or greater. (The Unrestricted Cash Reserve goal of 6 months or greater, includes any other unrestricted funds or unrestricted reserves.)

Parity Debt Service Coverage Ratio of 1.70X or higher

The District shall strive to maintain a minimum target goal for “parity debt service coverage ratio” (gross revenue of the utilities less operating and maintenance expenses (not including depreciation, taxes and debt payments) of 1.70X or higher on the combined parity annual debt service payments.

Use of General Accepted Rate Setting Methods

The analysis associated with “generally accepted” rate-setting techniques includes the following:

1. Revenue Requirement Analysis – Establishes the overall level of financial and rate needs of the District.
2. Cost of Service Analysis – Design rates to collect the appropriate level of revenue and to meet the goals and policies of the District.
3. The water rate structure shall be designed to work toward encouraging conservation and efficient use of resources and discourage excessive or wasteful usage.
4. As appropriate, the connection charges shall be established at a level to ensure that all customers seeking to connect to the District’s system shall bear their equitable share of the cost of the system.
5. Rates and connection fees shall be reviewed annually to ensure sufficient revenues.
6. Updates to the District’s Rates & Fees study will be conducted annually to update assumptions to ensure long-term solvency and viability of the District’s utilities.
7. The District shall track and maintain asset records for all new additions, replacements or retirement of assets on a yearly basis. This information shall be maintained on an on-going basis in an asset management database report.

III. Expenditure Policies

Identify priority services, establish appropriate service levels, and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of services.

1. The District will adopt an annual General Fund budget in which current expenditures do not exceed current projected revenues. Capital expenditures may be funded from one-time revenues.
2. Department managers are responsible for managing their budgets within the total appropriation for their department.
3. The District will take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of contingencies. The District may approve a short-term interfund loan or use of one-time revenue sources to address temporary gaps in cash flow, although this will be avoided if possible.
4. Long-term debt or bond financing shall not be used to finance current operating expenditures.
5. Emphasis will be placed on improving individual and work group productivity rather than adding to the work force. The District may invest in technology and other efficiency tools to maximize productivity. The District may hire additional staff only after the need for such positions has been demonstrated and documented.
6. All compensation planning and collective bargaining will focus on the total costs of compensation which includes direct salary, health care benefits, pension contributions, and other benefits which are a cost to the District.
7. Periodic comparisons of service delivery will be made to ensure that quality services are provided to our citizens at the most competitive and economical cost. Privatization and contracting with other governmental agencies will be evaluated as alternatives to service delivery where appropriate. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope or eliminated.
8. Whenever feasible, government activities will be considered enterprises if so doing will increase efficiency of service delivery or recover the cost of providing the service from the benefiting entity by user fees.
9. The District will make every effort to maximize any discounts offered by creditors/vendors.

IV. Operating Budget Policies

1. The District will adopt and maintain a balanced annual operating budget.
2. The District will strive to adopt a budget where current annual operating revenues will be equal to or greater than current operating expenditures.
3. Balanced revenue and expenditure forecasts will be prepared to examine the District's ability to absorb operating costs due to changes in the economy, service demands, contractual obligations, and capital improvements. The forecast will encompass five years and will be updated annually.
4. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue

6. The District will maintain its capital assets at a level adequate to protect the capital investment and to minimize future maintenance and replacement costs. The budget will provide for adequate maintenance and orderly replacement of capital assets from current revenues where possible.
7. The capitalization threshold used in determining if a given asset qualifies for capitalization is \$500.00 per item with a useful life of over one year. All capital assets shall have an assigned asset number when placed into service.
8. Minor equipment that falls below the \$500.00 threshold but is subject to shrinkage shall have an assigned asset number when placed into service and will be accounted for on the "Small and Attractive" inventory list.
9. Adequate insurance will be maintained on all capital assets.

VI. Accounting Policies

Comply with prevailing federal, state, and local statutes and regulations. Conform to a comprehensive basis of accounting in compliance with Washington State statutes and with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA) where applicable.

1. The District uses an accrual basis of accounting which is consistent with the generally accepted accounting principles (GAAP).
2. The District will maintain expenditure categories according to state statute and administrative regulation. The District will use the "Budgeting, Accounting & Reporting System" (BARS) prescribed by the State Auditor for its revenue and expenditure classification.
3. Quarterly budget reports showing the current status of revenues and expenditures will be prepared and distributed to appropriate legislative, staff and management personnel in a timely manner and made available for public inspection.
4. Monthly financial updates will be presented to the Commissioners.
5. Electronic financial systems will be maintained to monitor revenues, expenditures, and program performance on an ongoing basis.
6. The Annual Financial Report will be prepared and submitted to the State Auditor's Office no later than 150 days from the end of the preceding fiscal year.
7. The Annual Financial Report will be prepared on the basis of accounting that demonstrates compliance with Washington State statutes and the BARS manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles. The report will provide full disclosure of all financial activities and related matters.
8. A financial audit shall be performed by the Washington State Auditor's Office, which will issue an official opinion on the financial statements, every two years. An accountability audit (i.e., accountability for public resources and compliance with state laws and regulations and its own policies and procedures) shall be performed when necessary or every two years by the Washington State Auditor's Office.

9. The District's budget should satisfy criteria as a financial and programmatic policy document, as a comprehensive financial plan, as an operations guide for all organizational units, and as a communications device for all significant budgetary issues, trends and resources.

VII. Debt Policies

Establish guidelines for debt financing that will provide needed capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues.

Purpose and Overview

The Debt Policy for the District is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financings. Adherence to the policy is essential to ensure that the District maintains a sound debt position and protects the credit quality of its obligations.

Capital Planning:

The District shall integrate its debt issuance with its Capital Improvement Program (CIP) spending to ensure that planned financing conforms to policy targets regarding the level and composition of outstanding debt. This planning considers the long-term horizon, paying particular attention to financing priorities, capital outlays and competing projects. Long-term borrowing shall be confined to the acquisition and/or construction of capital improvements and shall not be used to fund operating or maintenance costs. For all capital projects under consideration, the District shall set aside sufficient revenue from operations to fund ongoing normal maintenance needs and to provide reserves for periodic replacement and renewal. The issuance of debt to fund operating deficits is not permitted.

Legal Governing Principles

In the issuance and management of debt, the District shall comply with the state constitution and with all other legal requirements imposed by federal, state, and local rules and regulations, as applicable.

1. State Statutes – The District may contract indebtedness as provided for by State law, subject to any limitations on indebtedness.
2. Federal Rules and Regulations – The District shall issue and manage debt in accordance with the limitations and constraints imposed by federal rules and regulations including the Internal Revenue Code of 1986, as amended; the Treasury Department regulations there under; and the Securities Acts of 1933 and 1934.
3. Local Rules and Regulations – The District shall issue and manage debt in accordance with the limitations and constraints imposed by local rules, policies, and regulations.

Roles & Responsibilities

The Board of Commissioners shall:

- Approve indebtedness;

reviewed and updated every five years.

X. Investment and Cash Management Policies

Manage and invest the District's operating cash to ensure its legality, safety, provide for necessary liquidity, avoid imprudent risk, and optimize yield.

1. Cash and Investment programs will be maintained in accordance with District regulations and will ensure that proper controls and safeguards are maintained. District funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.
2. The District will develop and adopt an investment policy. Currently the Local Government Investment Pool (LGIP), which is an investment vehicle maintained by the State Treasurer's Office to help local governmental entities achieve higher rates of return by pooling local funds for economies of scale, is the only authorized investment vehicle available to the District.
3. The District will maintain written guidelines on cash handling, accounting, segregation of duties, and other financial matters.
4. Monthly investment reports will be prepared and distributed to all departments and the Commissioners showing cash position, and year-to-date budgeted and actual expenditures.
5. The District will conduct annual reviews of its internal controls and cash handling procedures
6. Internal controls will be tested on a regular basis at a minimum.