



Mukilteo Water and Wastewater District
7824 Mukilteo Speedway
Mukilteo, WA 98275-0260
Ph: 425-355-3355 • Fax: 425-348-0645

BOARD OF COMMISSIONERS

SPECIAL MEETING

Monday, March 2, 2015

3:00 PM

AGENDA

Call Meeting to Order

Roll Call

Approval of Agenda

Visitors and Comments from the Audience

Business Items

1. Discussion regarding Financial Management Policies

Conclude

SCHEDULE OF UPCOMING MEETINGS

Regular Meetings are held the **1st and 3rd Wednesdays** of each month at **7:00 p.m.** at the **District Office**

March 4, 2015

March 18, 2015

April 1, 2015

BUSINESS OF THE MUKILTEO WATER AND WASTEWATER DISTRICT
BOARD OF COMMISSIONERS

SUBJECT: Financial Management Policies

MEETING DATE: March 2, 2015

FROM: Sue Parks, Finance Manager 

APPROVAL: Jim Voetberg, General Manager 

CURRENT YEAR			MULTI-YR. PROJ.	Expenditure Requested
Amount Budgeted	Amount Committed	Amount Available	Spent to Date	
N/A	N/A	N/A	N/A	N/A

EXHIBITS ATTACHED:

Draft Financial Management Policies
Draft Financial Management Policies with changes

SUMMARY STATEMENT/ISSUES:

The attached draft Financial Management Policies document now incorporates changes recommended by legal counsel, the bond underwriter, and the Board, with the exception of changes to the Fraud section 7.2. It had been recommended that another paragraph be added in the event fraud is suspected by the Finance Manager. As written, the General Manager will coordinate all investigations of fraud by staff or Board members. Paragraph 3 covers the possibility that fraud is suspected of the General Manager.

RECOMMENDATION/SUGGESTED MOTION:

Discussion.

MUKILTEO WATER & WASTEWATER DISTRICT

FINANCIAL MANAGEMENT POLICIES

1.0 POLICY GOAL

The purpose of establishing financial policies for Mukilteo Water & Wastewater District (MWWD or the District) is to promote the financial integrity and stability of our water and wastewater systems and to provide guidance and consistency in decision making for the District's management. This document is an outline of financial policies. All items discussed have approved policies and procedures in place. It is intended that these policies be reviewed periodically. The Board of Commissioners reserves the right to make decisions, from time-to-time, which may vary from these policies and/or amend these policies as needed.

MWWD observes and complies with all applicable federal and state laws, including Chapter 57.20 "Finances" of the Revised Code of Washington (RCW).

2.0 BANK ACCOUNTS/FUNDS

Snohomish County, serving as the District's treasurer, provides cash management and investment services to the District. The District has Maintenance, Capital Improvement and Capital Replacement funds with Snohomish County. Additionally, separate restricted funds have been established for bonds and bond reserves, ULID's (Utility Local Improvement District's), State Revolving Fund loans, and Public Works Trust Fund loans.

In addition to District Funds on deposit with the Snohomish County Treasurer, MWWD has additional accounts with US Bank in Mukilteo, Washington. Accounts include Depository Account, Payroll Account, and Accounts Payable Account. These accounts are all in the name of and for the benefit of the District.

All District monies shall be kept on deposit in approved US Bank Accounts or with the Snohomish County Treasurer, except the District has a Petty Cash Fund as established by resolution that maintains a balance of \$1,000.00, which supplies two Cash Drawers with a balance of \$200.00 each for making small change for customers, as well as petty cash with a balance of \$600.00 for small cash purchases.

2.1 Maintenance and Capital Funds

The Maintenance Fund is the District's primary operating account, and is used for the payment of operating and maintenance expenses, including labor costs related to the day-to-day operation of the District. There are separate Maintenance Funds for each of the water, westside wastewater and eastside wastewater utilities.

The water utility has a Capital Improvement Fund to provide funding for the acquisition of new equipment as well as a Capital Replacement Fund for the improvement or replacement of existing equipment for operations and administration facilities.

The District's westside and eastside wastewater utilities have Capital Improvement Funds to pay for the acquisition of new equipment and the improvement or replacement of existing equipment for operations, the Big Gulch Wastewater Treatment Facility (WWTF) and administration facilities.

A capital project or capital equipment must have a total cost of at least \$5,000 and have a useful life of more than one year.

Vouchers and checks are issued by the District from both the Maintenance and Capital funds depending on the nature of the expense. The Board of Commissioners shall be presented with all District vouchers and Automated Clearing House (ACH) payments to be issued on behalf of the District at its regularly scheduled meetings for review and approval. If circumstances merit, vouchers and/or ACH payments may be approved at special board meetings, provided such meetings have been scheduled and noticed in accordance with applicable state law.

2.2 Revenue Bond Accounts

Revenue Bond Accounts are maintained to pay the principal and interest payments associated with bond issues. Monies are transferred, on a monthly basis, from the Maintenance Fund(s) in the amount of the monthly portion of the semi-annual debt service payment(s) to the related Revenue Bond Account.

2.3 Public Works Trust Fund Account

The Public Works Trust Fund (PWTF) Account is maintained for the westside wastewater utility to pay the principal and interest payments associated with PWTF loans. Monies are transferred, on a monthly basis, from the westside wastewater utility Maintenance Fund in the amount of the monthly portion of the annual debt payments to the PWTF Account.

2.4 Depository Account

All monies collected from customers are receipted and deposited into the Depository Account at US Bank. All monies collected shall be transferred to Snohomish County on a twice monthly basis. All District funds received shall be deposited at US 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 District Finance Manager, or Board approved designee, is authorized to transfer funds from the Deposit Account to the Snohomish County Treasurer.

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 Finance Manager, reviewed, and posted. Cash over/short conditions, of more than \$100 shall be reported to the General Manager and the Board of Commissioners 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.

Customer credit or debit payments received after 3:00 p.m. of each business day shall be credited on the next business day.

2.5 Petty Cash Funds

The District maintains a Petty Cash fund in the amount of \$1,000, as established by resolution. The Petty Cash Funds is reimbursed through the District's voucher process. Reimbursements to the Petty Cash Fund may be made from either the Maintenance Fund or Construction Fund depending on the nature of the expenses. The Finance Manager, 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 minimus operating expenses. All Petty Cash vouchers shall be supported by detailed receipts or invoices and reviewed by the Finance Manager and approved by the General Manager. The District Finance Manager, or Board approved designee, shall prepare a monthly reimbursement of the Petty Cash Fund for processing through Accounts Payable Vouchers.

2.6 Payroll Account

The District maintains a Payroll account with US Bank in Mukilteo, Washington. Funds, in the total amount of payroll, are transferred from the Maintenance Funds to the Payroll Account prior to each pay date.

The District's pay period is the 24th of one month to the 23rd of the following month. Payroll is processed between the 24th and last day of each month, and approved by the General Manager. The District's pay dates are no later than the last day of each month. If this date falls on a weekend, the pay date is moved to the last business day prior to the last day of the month. The Board approves payroll at the first meeting of every month for the prior month.

Regular full-time employees are required to be paid via Direct Deposit initiated from this Payroll Account.

2.7 Accounts Payable Account

The District maintains an Accounts Payable account with US Bank in Mukilteo, Washington. Accounts payable vouchers are processed twice a month for Board approval at each Board meeting. The Finance Manager is authorized to sign

checks issued for each approved voucher, and funds, in the total amount of accounts payable, are transferred from the Maintenance and Capital Improvement/Capital Replacement Funds to the Accounts Payable account following each Board meeting.

3.0 REVENUE SUFFICIENCY

The District Board of Commissioners generally establishes water and wastewater rates that are anticipated to be sufficient on an annual basis to meet all utility requirements for general operating expenses, debt service, rate funded capital costs identified in Board of Commissioner approved Water and Wastewater Comprehensive Plans and Studies, and additions to reserves.

3.1 Operations and Maintenance Budget

MWWD prepares an annual Operations and Maintenance (O&M) Budget document for each calendar year (January 1 - December 31) that identifies regular operating expenses for the coming year and District funding required to pay such expenses. In support of the budget process, the District's rate analyst develops a rate forecast as needed. Changes in water and wastewater rates and other fees resulting from the rate forecast must be approved by the Board. The O&M Budget contains additional information regarding staffing levels, salary and benefits summary, planned training, and other information deemed helpful.

4.0 SUSTAINABILITY OF INFRASTRUCTURE

In conjunction with establishing or planning its capital program, the District maintains a six year capital-financing plan that supports execution of that program and is capable of sustaining long-term utility capital requirements. The capital program incorporates system expansion, upgrades and improvements, and system repair and replacement. The intention is to establish an integrated capital funding strategy.

4.1 Capital Facilities Planning

Comprehensive plans for the District are completed or updated every six to ten years as required by Chapter 57.16 RCW and applicable state regulations, using a 20-year planning horizon. For budgeting purposes, the District maintains a capital projects schedule, the "Capital Improvement Program" or CIP of at least six years in duration and consistent with the comprehensive long-range plans for the system. The schedule will include the project description, estimated year of construction and total estimated cost. Various funding sources are identified as well as estimated capital fund balances, in an effort to identify potential funding shortfall.

4.2 Capital Facilities Funding

The District works to pursue a reasonable capital improvement program through careful balance of pay-as-you-go capital projects and funded by debt.

4.2.1 District General Facility Charge (GFC) revenue is revenue received from new customers connecting to the water or wastewater system(s) and on expanded development(s) to reflect an appropriate capital investment commensurate with system costs, including both existing assets and future improvements to serve such growth. The District reviews and adjusts, if appropriate, the GFC as needed.

4.2.2 Capital Funding from water and wastewater rates is the annual contribution transferred from rates to the Capital Improvement Funds. The District uses the Annual Depreciation Total as a reference number for transfers from the Operating Fund of the District to the Capital Improvement Funds.

4.2.3 The District utilizes revenue bonds, Public Works Trust Fund loans, and State Revolving Fund (SRF) loans through Dept. of Ecology to assist in Capital Funding whenever necessary. Each capital project that may be funded by a loan is evaluated within the context of the District's capital improvement program and the capital budget. Alternative financing sources are always considered. The District will not issue or accept long-term debt to finance current operations.

5.0 DEBT MANAGEMENT

The District recognizes that prudent use of its credit can both facilitate construction of essential capital improvements and serve as a method for sharing costs of those improvements between current and future beneficiaries. Furthermore, a debt management policy can assist the Board of Commissioners and staff to integrate the issuance of debt with other long-term planning, financial, and management objectives.

5.1 Limitation on Debt Issuance

Long-term borrowing shall be confined to capital improvements with an extended life when it is not practical to finance the construction of such capital improvements from current revenues. Approval of the Board of Commissioners is required prior to the issuance of debt.

An analytical review shall be conducted prior to the issuance of new debt. The analysis shall consider the results of such debt on the operating budget, the effect on the District's credit rating, the ability to provide future services, and the potential impact on user rates and fees. The District will carefully consider the future fiscal costs of any debt issuance to determine that any such issuance will not adversely impact the District's credit rating.

5.2 Credit and Ratings

Capital will be raised at the lowest possible cost through maintenance of a high credit rating and demonstration of fiscal conservatism in the credit markets.

It is important to the rating agencies and to the financial community to articulate financial goals. In addition, a desirable debt service coverage ratio, the ratio of revenues available for debt service to the annual debt service requirement, positively affects the District's bond ratings. Strong bond ratings result in lower interest rate costs.

5.3 Term

Debt shall not be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed. The District will seek to structure debt with level principal and interest costs over the life of the debt.

5.4 Bond Issuance

The District will use the services of reputable and experienced bond counsel in the preparation of all bond issuances. No bonds will be issued without a written opinion by bond counsel affirming that the District is authorized to issue the debt, stating the District has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax exempt status.

5.4.1 An Underwriter will be used for all bond debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.

5.4.2 A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 39.46.030, the County Treasurer, as ex-officio treasurer of a special purpose district, shall act as fiscal agent for such special purpose district, unless the County Treasurer appoints either one or more of the fiscal agencies appointed from time to time by the state finance committee in accordance with Chapter 43.80 RCW.

5.5 Parity Debt Service Coverage Target

An internal financial requirement is established that requires a utility wide minimum parity debt service coverage ratio of 2.0 times the debt service payment. This ratio is calculated the same as the bond covenant ratio.

5.6 Other

Principal and interest will be paid in accordance with the terms of the applicable bond resolution. The District will maintain compliance with all covenants set forth in the bond resolutions.

The District will use refunding bonds when appropriate to restructure its current outstanding debt. Periodic reviews will be undertaken to identify refunding

opportunities. Refunding will be considered if and when there is an economic benefit of the refunding to the District.

An adequate rate structure will be maintained to cover the full costs of operations to include maintenance, depreciation, capital, and debt service.

6.0 RESERVES

Reserve balances are funds that are set aside for a specific project, task, covenant requirement, and/or emergencies. These balances are maintained in order to meet short-term cash flow requirements, while at the same time minimizing the risk associated with meeting financial obligations and continued operational needs under adverse conditions.

Reserve funds will be held in the Maintenance Funds, Bond Reserve Funds, and SRF loan reserves, and can be corroborated by the ending Fund balance. Reserve balances are expected to vary during the course of the calendar year. Reserves are held to meet the following reserve goals.

6.1 Operating Reserve/Unrestricted Cash

The purpose of an Operating Reserve is to maintain financial viability of the utility despite short-term variability in revenues and expenses, primarily caused by billing cycles, payroll cycles, accounts receivable/payable, weather variability and unexpected system changes. The Operating Reserve will also provide adequate liquidity, provide for unanticipated economic downturns, maintain credit ratings, provide for service and costs during a declared emergency, provide for long-term capital needs, and meet mandated reserve requirements.

6.1.1 The General Manager is authorized to direct the transfer of excess funds from the Maintenance Funds into the Water Capital Replacement Fund and Wastewater Capital Improvement Funds.

6.1.2 A fund contains "excess funds" whenever the total in the funds exceeds by 4 times the previous calendar year's average monthly operating expenses paid by that fund.

6.1.3 The General Manager or designee shall determine on the last working day of each quarter whether excess funds are held in the Maintenance Funds and, if so, directs the appropriate transfer.

6.1.4 The General Manager or designee shall maintain a permanent record of all funds transferred from the Maintenance Funds to the Water Capital Replacement or Wastewater Capital Improvement Funds.

6.2 Bond Reserve

The District is required to maintain a Bond Reserve Fund as a part of the bond covenants associated with each bond issue, as authorized by the Board of Commissioners.

7.0 FRAUD

It is the District's goal to prevent, detect and eliminate all forms of fraud relative to the District's finances and property. The District has established these and other financial procedures and policies to promote consistent organizational behavior by providing guidelines for District personnel.

7.1 Scope of Fraud Policy

This policy applies to any irregularity or suspected irregularity involving employees, commissioners, consultants, vendors, contractors, or any other outside agency, engaging in a business relationship with the District.

Any investigation of fraud will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship to the District.

7.2 Responsibility & Investigation

Management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team will be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Any irregularity that is detected or suspected must be reported immediately to the General Manager, who coordinates all investigations with the legal counsel in conjunction with the President of the Board, unless it is the Board President who is suspected of fraud at which time the General Manager will coordinate the investigation legal counsel in conjunction with the Vice-President of the Board. The District is required by 43.09.185 RCW to immediately report to the state auditor's office known or suspected loss of public funds or assets or other illegal activity.

In the event that fraud is suspected by the General Manager, the Finance Manager shall act as substitute. All suspected fraud is to be reported in a timely manner to the Board of Commissioners.

If the investigation substantiates that fraudulent activities have occurred, the General Manager the Board of Commissioners and the State Auditor's Office will be notified.

Decisions to prosecute or refer the investigation results to the appropriate law enforcement agency for independent investigation will be made by the Board of Commissioners.

7.3 Actions Constituting Fraud

Fraud terms such as misappropriation or other fiscal irregularities refer to, but are not limited to the following:

- 7.3.1 A dishonest or fraudulent act
- 7.3.2 Misappropriation of funds, supplies or other assets
- 7.3.3 Impropriety in handling or reporting of money or financial transactions
- 7.3.4 Profiteering as a result of insider knowledge of District activities
- 7.3.5 Disclosing confidential and proprietary information to outside parties
- 7.3.6 Accepting or seeking anything of material value from contractors, vendors, or persons providing services or materials to the District
- 7.3.7 Destruction, removal, or inappropriate use of records, furniture, fixtures, and equipment

7.4 Identity Theft Program

The District has established an Identity Theft Prevention Program, pursuant to the Federal Trade Commission's Red Flags Rule (Rule). This Program was developed to identify relevant Red Flags as defined in the Rule and to respond appropriately to any Red Flags that are detected to prevent and mitigate identity theft.

8.0 ACCOUNTING - OTHER

MWWD will maintain a uniform system of accounts, and maintain accounting practices that follow Generally Accepted Accounting Principles (GAAP) and Statements issued by the Governmental Accounting Standard's Board (GASB) for its accounting procedures and financial statement preparation. Each year the District will be audited by the Washington State Auditor's Office.

8.1 Fixed Asset Inventories

MWWD will maintain accurate inventories of all physical assets, their condition, life spans and cost to ensure proper stewardship of public property. The Board of Commissioners along with management staff establishes policies and appropriate procedures to manage fixed assets, including establishing the threshold dollar amount for which fixed asset records are maintained and how often physical inventories will be taken. Commissioners have determined that the current threshold for capitalization of a fixed assets is \$5,000. Additionally,

physical inventories are taken at the end of December or beginning of January of each year.

8.2 Procurement and Contracts

The District shall conform to the public bidding requirements set forth in Title 57 of the Revised Code of Washington and other applicable state statutes.

The Board of Commissioners shall establish Purchasing Policies that meet or exceed requirements of applicable state law

8.3 Disposal of Certain Personal Property with No Value

The General Manager may dispose of personal property with an original purchase price of less than \$5,000 at the least cost to the District if the General Manager determines that such property has no value. The General Manager shall report the disposal of any such property to the Board of Commissioners at the next regular Board meeting following the disposition of the property.

Property where the expected value is less than the cost to surplus may be destroyed, donated to another governmental agency or local community non-profit. District personnel and their immediate families cannot purchase surplus equipment unless approved by the General Manager and as part of the public bid process.

8.4 Other Related Policies

The District has other policies that are meant to be used in conjunction with this policy, including the following, as amended from time to time:

- Appendix A – Travel, Credit Card Policy (017-08)
- Appendix B – Excess Fund Transfers Policy (345-15)
- Appendix C – Capital Assets Policy (108-09)
- Appendix D – Identity Theft Prevention Program (070-08)
- Appendix E – Operating & Capital Budget Policies (137-10)
- Appendix F – Purchasing Policies (138-10)
- Appendix G – Petty Cash (315-14)

MUKILTEO WATER & WASTEWATER DISTRICT

FINANCIAL MANAGEMENT POLICIES

1.0 POLICY GOAL

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MWWD observes and complies with all [applicable](#) federal and state laws, [including Chapter 57.20 "Finances" of the Revised Code of Washington \(RCW\)](#). ~~The District policy follows "Title 57: Water and Sewer Districts" in the Revised Code of Washington (RCW). Section 57:20 of the RCW specifically deals with Finance.~~

2.0 BANK ACCOUNTS/FUNDS

Snohomish County, serving as the District's treasurer, provides cash management and investment services to the District. The District has Maintenance, Capital Improvement and Capital Replacement funds with Snohomish County. Additionally, separate restricted funds have been established for bonds and bond reserves, ULID's (Utility Local Improvement District's), State Revolving Fund loans, and Public Works Trust Fund loans.

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Comprehensive plans for the District are completed or updated every six to ten years as required by Chapter 57.16 RCW and applicable state regulations ~~(per RCW 57:16)~~, using a 20-year planning horizon. For budgeting purposes, ~~the~~ District maintains a capital projects schedule, the "Capital Improvement Program" or CIP of at least six years in duration and consistent with the comprehensive long-range plans for the system. The schedule will include the project description, estimated year of construction and total estimated cost. Various funding sources are ~~also~~ identified as well as estimated capital fund balances, in an effort to identify potential funding shortfall.

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An analytical review shall be conducted prior to the issuance of new debt. The analysis shall consider the results of such debt on the operating budget, the effect on the District's credit rating, the ability to provide future services, and the potential impact on user rates and fees. The District will carefully consider the future fiscal costs of any debt issuance to determine that any such issuance will not adversely impact~~s~~ the District's credit rating.

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It is important to the rating agencies and to the financial community to articulate financial goals. In addition, a desirable debt service coverage ratio, the ratio of revenues available for debt service to the annual debt service requirement, positively affects the District's bond ratings. ~~Strong bond~~~~Excellent~~ ratings result in lower interest rate costs.

5.3 Term

Debt ~~shall not~~~~cannot~~ be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed. The District will seek to structure debt with level principal and interest costs over the life of the debt.

5.4 Bond Issuance

The District will use the services of ~~reputable and experienced~~~~credible~~ bond counsel in the preparation of all bond ~~issuances~~~~representations~~. No bonds will be issued without a written opinion by bond counsel affirming that the District is authorized to issue the debt, stating the District has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax ~~exempt~~ status.

5.4.1 An Underwriter will be used for all bond debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.

5.4.2 A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 39.46.030, the County Treasurer, as ex-officio treasurer of a special purpose district, shall act as fiscal agent for such special purpose district, unless the County Treasurer appoints either one or more of the fiscal agencies appointed from time to time by the state finance committee in accordance with ~~RCW~~~~Chapter~~ 43.80 ~~RCW~~.

5.5 Parity Debt Service Coverage Target

An internal financial requirement is established that requires a utility wide minimum parity debt service coverage ratio of 2.0 times the debt service payment. This ratio is calculated the same as the bond covenant ratio.

5.6 ~~Post Issuance/Compliance~~Other

Principal and interest will be paid in accordance with the terms of [the applicable bond resolutions](#). The District will maintain compliance with all covenants set forth in the bond resolutions.

~~An internal financial requirement is established that requires a minimum debt service coverage ratio of 2.0 times the debt service payment. This ratio is calculated the same as the bond covenant ratio.~~

The District will use refunding bonds when appropriate to restructure its current outstanding debt. Periodic reviews will be undertaken to identify refunding opportunities. Refunding will be considered if and when there is an economic benefit of the refunding [to the District](#).

An adequate rate structure will be maintained to cover the full costs of operations to include maintenance, depreciation, capital, and debt service.

~~The District will maintain regular communication with rating agencies that rate the bonds and will update the agencies in the event of material adverse changes in its business position.~~

6.0 RESERVES

Reserve balances are funds that are set aside for a specific project, task, covenant requirement, and/or emergencies. These balances are maintained in order to meet short-term cash flow requirements, while at the same time minimizing the risk associated with meeting financial obligations and continued operational needs under adverse conditions.

Reserve funds will be held in the Maintenance Funds, Bond Reserve Funds, and SRF loan reserves, and can be corroborated by the ending Fund balance. Reserve balances are expected to vary during the course of the calendar year. Reserves are held to meet the following reserve goals.

6.1 Operating Reserve/[Unrestricted Cash](#)

The purpose of an Operating Reserve is to maintain financial viability of the utility despite short-term variability in revenues and expenses, primarily caused by billing cycles, payroll cycles, accounts receivable/payable, weather variability and unexpected system changes. [The Operating Reserve will also provide adequate liquidity, provide for unanticipated economic downturns, maintain credit ratings, provide for service and costs during a declared emergency, provide for long-term capital needs, and meet mandated reserve requirements.](#)

6.1.1 The General Manager is authorized to direct the transfer of excess funds from the Maintenance Funds into the Water Capital Replacement Fund and Wastewater Capital Improvement Funds.

6.1.2 A fund contains “excess funds” whenever the total in the funds exceeds by 34 times the previous calendar year’s average monthly operating expenses paid by that fund.

6.1.3 The General Manager or designee shall determine on the last working day of each quarter whether excess funds are held in the Maintenance Funds and, if so, directs the appropriate transfer.

6.1.4 The General Manager or designee shall maintain a permanent record of all funds transferred from the Maintenance Funds to the Water Capital Replacement or Wastewater Capital Improvement Funds.

6.2 Bond Reserve

The District is required to maintain a Bond Reserve Fund as a part of the Bond Covenants associated with each bond issue, as authorized by the Board of Commissioners.

7.0 FRAUD

It is the District’s goal to prevent, detect and eliminate all forms of fraud relative to the District’s finances and property. The District has established these and other financial procedures and policies to promote consistent organizational behavior by providing guidelines for District personnel.

7.1 Scope of Fraud Policy

This policy applies to any irregularity or suspected irregularity involving employees, commissioners, consultants, vendors, contractors, or any other outside agency, engaging in a business relationship with the District.

Any investigation of fraud will be conducted without regard to the suspected wrongdoer’s length of service, position/title, or relationship to the District.

7.2 Responsibility & Investigation

Management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team will be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Any irregularity that is detected or suspected must be reported immediately to the General Manager, who coordinates all investigations with the legal counsel in conjunction with the President of the Board, unless it is the Board President who is suspected of fraud at which time the General Manager will coordinate the investigation legal counsel in conjunction with the Vice-President of the Board. The District is required by 43.09.185 RCW to immediately report to the state

auditor's office known or suspected loss of public funds or assets or other illegal activity.

In the event that fraud is suspected by the General Manager ~~or President of the Board~~, the Finance Manager shall act as substitute. All suspected fraud is to be reported in a timely manner to the Board of Commissioners.

If the investigation substantiates that fraudulent activities have occurred, the General Manager ~~will inform~~ the Board of Commissioners and ~~the Finance Manager will inform~~ the State Auditor's Office will be notified.

Decisions to prosecute or refer the investigation results to the appropriate law enforcement agency for independent investigation will be made by the Board of Commissioners.

7.3 Actions Constituting Fraud

Fraud terms such as misappropriation or other fiscal irregularities refer to, but are not limited to the following:

- 7.3.1 A dishonest or fraudulent act
- 7.3.2 Misappropriation of funds, supplies or other assets
- 7.3.3 Impropriety in handling or reporting of money or financial transactions
- 7.3.4 Profiteering as a result of insider knowledge of District activities
- 7.3.5 Disclosing confidential and proprietary information to outside parties
- 7.3.6 Accepting or seeking anything of material value from contractors, vendors, or persons providing services or materials to the District
- 7.3.7 Destruction, removal, or inappropriate use of records, furniture, fixtures, and equipment

7.4 Identity Theft Program

The District has established an Identity Theft Prevention Program, pursuant to the Federal Trade Commission's Red Flags Rule (Rule). This Program was developed to identify relevant Red Flags as defined in the Rule and to respond appropriately to any Red Flags that are detected to prevent and mitigate identity theft.

8.0 ACCOUNTING - OTHER

MWWD will maintain a uniform system of accounts, and maintain accounting practices that follow Generally Accepted Accounting Principles (GAAP) and Statements issued by the Governmental Accounting Standard's Board (GASB) for its

accounting procedures and financial statement preparation. Each year the District will be audited by the Washington State Auditor's Office.

8.1 Fixed Asset Inventories

MWWD will maintain accurate inventories of all physical assets, their condition, life spans and cost to ensure proper stewardship of public property. The Board of Commissioners along with management staff establishes policies and appropriate procedures to manage fixed assets, including establishing the threshold dollar amount for which fixed asset records are maintained and how often physical inventories will be taken. Commissioners have determined that the current threshold for ~~C~~capitalization of a fixed assets is \$5,000. Additionally, physical inventories are taken at the end of December or beginning of January of each year.

8.2 Procurement and Contracts

The District shall conform to the public bidding requirements set forth outlined in Title 57 of the Revised Code of Washington and other applicable state statutes.

~~The General Manager shall have authority to waive bidding requirements to the extent provided by law, particularly when a vendor has been determined "sole source" by the General Manager, with final approval by the Board of Commissioners. The following are examples of bases for sole source acquisitions:~~

- ~~8.2.1—The supplies or services to be acquired are unique to a contractor.~~
- ~~8.2.2—Time is of the essence and only one known source can meet the District's needs within the required timeframe.~~
- ~~8.2.3—Data is unavailable for competitive procurement.~~
- ~~8.2.4—It is necessary that the item being acquired from the one source be compatible and interchangeable with existing equipment.~~

The Board of Commissioners shall establish Purchasing Policies that meet or exceed requirements of applicable state law ~~established by the State of Washington.~~

8.3 ~~Surplus Equipment~~ Disposal of Certain Personal Property with No Value

The General Manager may dispose of personal property with an original purchase price of less than \$5,000 at the least cost to the District if the General Manager determines that such property has no value. The General Manager shall report the disposal of any such property to the Board of Commissioners at the next regular Board meeting following the disposition of the property. ~~administratively surplus office equipment, computer equipment, small tools, computer software and minor equipment with a value of less than \$5,000. Titled~~

~~vehicles, real property, and any District property with a original value of greater than \$5,000, will be surplusd by resolution. The District Manager shall report to the Commissioners, at their next regular business meeting, any property administratively surplusd.~~

Property where the expected value is less than the cost to surplus may be destroyed, donated to another governmental agency or local community non-profit. District personnel and their immediate families cannot purchase surplus equipment unless approved by the ~~District~~ General Manager and as part of the public bid process.

8.4 Other Related Policies

The District has other policies that are meant to be used in conjunction with this policy, including the following, as amended from time to time:

- Appendix A – Travel, Credit Card Policy (017-08)
- Appendix B – Excess Fund Transfers Policy (~~345-15A-1627~~)
- Appendix C – Capital Assets Policy (108-09)
- Appendix D – Identity Theft Prevention Program (070-08)
- Appendix E – Operating & Capital Budget Policies (137-10)
- Appendix F – Purchasing Policies (138-10)
- Appendix G – Petty Cash (315-14)