

FINANCIAL POLICIES AND PROCEDURES

POLICY NUMBER: FP-113
SUBJECT: EMERGENCY RESERVE FUND AND PROJECT FUND
POLICY
EFFECTIVE DATE: July 1, 1999
REVISION DATES: 6/17/00, 1/18/03, 9/17/06, 9/7/08,9/16/09
APPROVED BY: CWEA Board of Directors

POLICY

The Association will ensure that adequate funds are available for contingencies through a primary Emergency Reserve Fund and private insurance, and for projects and opportunities (both budgeted and unbudgeted) that align with the annual Program of Work and/or Strategic Plan through a Project Fund.

With respect to contingencies, the Association will have sufficient financial strength to withstand an unforeseen decline of income or increase in expenses. The Association will identify risks and a funding level for the Emergency Fund.

With respect to projects and opportunities, the Association will maintain funds in order to support planned long-term and/or periodically recurring projects (e.g. Technical Certification Program validations and upgrades) and to take advantage of opportunities that may arise between budget cycles. In addition, the Association will be prepared to finance projects resulting from unexpected industry or legislative problems which cannot be anticipated during the development of the Association's annual budget. Because the Association will tap and replenish the Project Fund over time, target levels are identified for guidance but no specific funding level is required.

The Association will prepare for periodic replacement of equipment by allocating funds annually in the operating budget, in preparation for purchase of capital items and replacement of those items as they become obsolete.

PROCEDURES

1. OBJECTIVES:
 - A. Emergency Reserve Fund
 - 1) Emergency and cash flow--An appropriation equal to two months of operating expenses (excluding the direct expenses from Annual Conference, Northern Regional Training Conference, Northern Safety

Conference, P3S Conference, and Tri-State Seminar) will be developed and maintained.

- 2) Unplanned staff turnover--An appropriation equal to 50% of the total annual value of staff leave balance, plus estimated severance and recruiting costs will be developed and maintained to ensure that accrued staff benefit requirements are met and separation and replacement costs are covered.
- 3) Uninsured event failure or cancellation--An appropriation equal to 80% of budgeted Annual Conference net revenue will be developed and maintained as a reserve against potential revenue failure from one or more conferences.
- 4) Insurance deductible--An appropriation equal to the maximum deductible for a single occurrence will be developed and maintained, excluding conference cancellation insurance deductible.
- 5) Legal action—An appropriation equal to the maximum insurance deductible for a single occurrence will be developed and maintained for unplanned legal action.

B. Project Fund

- 1) The Board of Directors may elect to use the Project Fund as a secondary Emergency Reserve Fund for operating expenses when the Emergency Reserve Fund has been exhausted.
- 2) A Project is defined as:
 - (i) Program of Work Project--an element of the annual Program of Work recommended by the Planning and Program Development Committee and approved by the Board as part of the annual budget planning process.
 - (ii) New Opportunity Project--any new project that may occur regardless of project timeline or frequency to respond to an opportunity aligned with the strategic plan that arises between annual budget cycles.
- 3) Target levels:
 - (i) Program of Work Projects—8% of annual operating expenses serves as the target level for guidance. A list of program of work projects shall be established and reviewed by the Planning and Program Development Committee as part of the annual budget planning process and appended to this policy annually by OPS.
 - (ii) New Opportunity Projects—5% of annual operating expenses serves as the target level for guidance.

2. FUNDING

Each annual operating budget for the Association shall identify an appropriation of funds to or from the Association's Emergency Reserve and/or Project Fund.

Any net unexpended funds (after the need for an adequate checking account balance has been taken into account) at fiscal year end shall be applied to the Emergency Reserve Fund and/or Project Fund and/or Kirt Brooks Memorial Water Environment Scholarship Fund balance. The Planning and Program Development Committee (PPD) shall recommend fiscal year end allocations to the board at its June meeting.

Monies in the funds will be reviewed by OPS as referenced in FP 111 and may be co-mingled in order to leverage investment returns.

The Executive Committee shall approve unbudgeted use of funds from the Emergency Reserve Fund. Proposals for unbudgeted use of funds from the Project Fund for new projects or opportunities shall be reviewed by the Planning and Program Development Committee and approved by the Executive Committee.

3. ANALYSIS AND RE-EVALUATION

The members of the Planning and Program Development (PPD) Committee shall evaluate the Emergency Reserve and Project Fund appropriations annually as part of the preparation of the Budget for the Association, and shall recommend to the Board, such changes as may be appropriate. The Operations Committee shall propose any amendments to this policy following the PPD Committee's recommendations on appropriations and the Board's approval. The Operations Committee shall review this policy every two years and shall recommend to the Board any changes as may be appropriate.

Appendix to FP 113

PROJECT FUND

EFFECTIVE DATE: January 18, 2003 REVISION DATE: June 17, 2006; September 7, 2008; September 16, 2009
APPROVED BY: CWEA Board of Directors

PROGRAM OF WORK PROJECTS

An appropriation of approximately \$50,000 is budgeted for use in FY 09-10 to fund the following:

- 1.
2. Member Communications Task Force web site improvements (\$25,000)
3. Awards improvement project (\$15,000)
4. HR compensation and benefits study (\$10,000)

NEW OPPORTUNITY PROJECTS

1. STATE OPERATOR CERTIFICATION PROGRAM
CWEA's Board wishes to stand ready to propose jointly administering the State Operator Certification Program if the State Water Board chooses to outsource the program and/or ceases to offer the program. Cost not estimated.
2. MANDATORY COLLECTION SYSTEM OPERATOR CERTIFICATION
Prepare for the potential of mandatory collections system operator certification. Revise TCP business plan to scan competitors and outline plan to enable TCP to be responsive to any scenario where collection system operator certification becomes mandatory.