



Financial Policies and Procedures Manual

INTRODUCTION

The Texas Water Conservation Association (TWCA) is an association of water professionals dedicated to promoting sound water policy for Texas. Its members provide water, wastewater, and or flood response services to the majority of Texans and include river authorities, municipalities, water providers, groundwater conservation districts, irrigation and drainage districts, and the engineering, legal, and consulting firms that support the state's water industry. Founded in 1944, TWCA is exempt from taxation under Section 501(c)4 of the Internal Revenue Code. Its fiscal year is January 1 through December 31.

PURPOSE

The policies and procedures discussed herein address various accounting and financial guidelines designed to enhance financial accountability and transparency, eliminate misunderstandings, and protect the assets and viability of TWCA. It is the responsibility of the TWCA Board of Directors, Executive Committee, Finance Committee, Treasurer, and Executive Director to ensure sound accounting practices and internal controls. While every effort is made to keep this manual up to date, all items referenced herein are subject to modification, amendment, or deletion.

FINANCIAL REVIEW AND REPORTING

Finance Committee. The Finance Committee is a subcommittee of TWCA's Executive Committee. It includes the past president, president, and president-elect of TWCA, the Treasurer, and either the most recent past president whose term has expired (from June 1 through the December board meeting) or the newly elected president-elect before taking office (from the December board meeting to June 1).

Annual Budget. Each fall, the Executive Director works with the Treasurer and Finance Committee to prepare a draft budget for the following year for presentation to the Executive Committee. The Executive Committee then recommends for approval an annual budget to the Board of Directors at its 4th quarterly meeting. All budgets are prepared on a zero-based budgeting system with sufficient detail to identify revenue and expenditures by program and project in accordance with the TWCA chart of accounts. Amendments to the annual budget are based on the recommendation of the Executive Committee and subject to approved by the Board of Directors.

Financial Statements. It is the policy of TWCA to prepare and distribute financial statements to the Treasurer at least monthly and to the Board of Directors at least quarterly for approval. The statements include a Balance Sheet, a Profit and Loss Statement, and a Budget versus Actuals. Current financial statements, bank statements, and records are available to any TWCA member upon request.

Financial Review and Audit. It is the policy of TWCA to ensure that its financials are reviewed on an annual basis by an independent certified public accounting firm. TWCA conducts a full audit for odd-

numbered years and an annual review for even-numbered years. The performance of the CPA firm conducting the annual review/audit is evaluated by the Treasurer in conjunction with the Finance Committee. If applicable, and at least once every five years except when extenuating circumstances exist, an RFP will be developed and distributed for the sole intent of hiring a new CPA firm, subject to approval of the Executive Committee.

Tax Return. TWCA is required to file a Form 990 annual tax return with the Internal Revenue Service. The Executive Director and Treasurer oversee the filing of the return by the CPA firm.

HANDLING OF MONEY

TWCA uses a system of internal controls and procedures for handling money, adopts auditor recommendations, and strives for accuracy in all financial matters. It does not tolerate fraud or misappropriation of funds under any circumstances. All such cases are treated equally and consistently, working in full cooperation with legal authorities as necessary. Any person involved in fraudulent activity is subject to civil action and criminal penalties.

Segregation of Duties. It is the policy of TWCA to ensure an adequate segregation of responsibilities related to all financial operations, including cash receipts, bank deposits, bank statement reconciliations, invoice approval, check preparation, check signing, and expense reimbursement approvals. TWCA utilizes the oversight of three employees, a volunteer Treasurer, and external third-party consultants to conduct these tasks as outlined herein.

Banking. All receipts are entered in a permanent record and deposited in a FDIC bank in the City of Austin, Texas, to the credit of TWCA. The Treasurer, external bookkeeper, and CPA firm have independent access to TWCA's electronic bank statements (view only).

Incoming Payments and Receipts. TWCA receives payment for membership dues, conference and meeting registrations, subscription services, sponsorships, and management fees. TWCA accepts paper payments (checks and rarely, cash) and online payments (ACH transfers and echecks, debit card payments, and credit card payments). TWCA's membership management system (MMS) serves as its official payment log.

Online Payments. Online payments are automatically logged in the MMS through the independent payment processor, synced with TWCA's financial software, and deposited into TWCA's bank account. Staff ensures that invoices paid electronically are marked as paid and properly coded.

Paper Payments. Upon receipt of payment via mail or at the conclusion of TWCA events where payments are collected in person, staff enters all payments into the MMS by marking the pending invoice as paid and logging the payment method and check number, as applicable. All checks and cash with the corresponding receipt or form are then be provided to a second staff person for entry into TWCA's financial software and deposit into the proper bank account.

Outgoing Payables and Checks. All payables are paid by check, electronic check, debit card, or credit card, and supporting documents are kept for each disbursement. Unused checks are pre-numbered and stored under lock and key. The signing of blank checks is prohibited.

All invoices that are not routine budgeted expenses require approval by the Executive Director either by initialing a paper copy of the invoice or sending an electronic record of approval. Routine budgeted expenses include rent, postage and printing costs, recurring software fees, office supplies, and other expenses that are part of TWCA's ongoing operation. Non-budgeted expenses greater than \$5,000 require written approval from the Treasurer or President and, if necessary, a budget amendment as outlined above.

Payroll and Benefits. TWCA uses a third-party software to run payroll twice each month and to remit payroll taxes to the Internal Revenue Service, subject to approval of the Executive Director. Any employee share of health insurance costs is automatically deducted from the employee's payroll. The finance director is responsible for making monthly pension contributions to the retirement accounts of qualified employees.

Expense Reports. Expense reports may be submitted monthly, quarterly, or immediately after the expense has been incurred. All charges except tips and tolls require a receipt or credit card documentation supporting the expense. Travel expenses require pre-approval by the Executive Director. TWCA reimburses TWCA business travel via personal automobile at the published Internal Revenue Service rate. Employee expense reports require approval of two director-level staff members before disbursements can be made. All requests for reimbursement and other invoices are checked for mathematical accuracy and reasonableness before approval.

Reconciliation. TWCA uses an external bookkeeping service to perform a monthly reconciliation between its financial software and bank statements.

OPERATING AND RESERVE FUNDS

The purpose of this section is to set forth the policy and operational factors governing the management of TWCA's financial assets, excluding property. This statement will serve to direct the management of funds by the TWCA Finance Committee, Treasurer, Executive Director, and investment advisor as applicable.

Operating Fund. The purpose of the Operating Fund is to provide sufficient cash to meet the day-to-day financial obligations of TWCA in a timely manner. These funds are held in a checking account in TWCA's name and should be at least \$100,000 but no more than \$250,000 unless on a temporary basis or otherwise directed by the Executive Committee.

Legal Advocacy Fund. The purpose of the Legal Advocacy Fund is to participate in administrative or judicial proceedings as necessary to further TWCA's mission and protect the interests of membership when issues of common concern arise. This fund is made up of member donations and held in a separate checking or savings account in TWCA's name with a target balance of \$25,000- \$50,000. Once this fund falls below \$25,000, the Chair of the Water Laws Committee may solicit additional donations from the Board of Directors or membership. Monies from this fund may be spent only in accordance with TWCA's Amicus Brief Policy.

Reserve Fund. The purpose of the Reserve Fund is to provide reserves for TWCA in the event of a revenue shortfall during the operating year. Excess cash funds not needed in the normal course of TWCA operations should be deposited into this fund. The fund will seek a target balance of 50% of

TWCA's annual operations budget. The first \$250,000 of this fund should be considered short-term in its investment time horizon with an objective of preserving capital and liquidity first and optimization of return second. Upon approval from the Treasurer, the Executive Director may invest these funds in separate interest-bearing checking or savings accounts, Certificates of Deposit at insured commercial banking institutions, or money market funds that invest in government backed securities.

It is anticipated that the services of a registered investment advisor may be sought to manage investment of the Reserve Fund once it exceeds \$250,000. TWCA should look to the Public Funds Investment Act for guidance with investing these funds and any investments beyond the options listed above must be based on the recommendation of an investment advisor and approved by the TWCA Executive Committee.

INSURANCE

TWCA will protect its assets and manage risks and by carrying appropriate insurance. At a minimum, TWCA will carry insurance covering commercial general liability, directors and officers liability, employment practices liability, and workers compensation. The Finance Committee will review TWCA's insurance policies periodically to ensure adequate coverage.

ADDENDUM: ADDITIONAL REVIEW AND REPORTING PROCEDURES RELATED TO TWCA RISK MANAGEMENT FUND

The Texas Water Conservation Association Risk Management Fund (the Fund) is a self-insurance pool formed by Texas water districts and authorities to provide expert resources and access to a customized insurance program for its members that includes workers' compensation, liability, and property coverage programs. The Fund is separate from TWCA and governed by an 11-member Board of Trustees elected by the Fund membership. All Fund members must also be members of TWCA.

The Fund is managed by a Fund Administrator (currently Sedgwick) with administrative support from TWCA. Pursuant to a Memorandum of Agreement between TWCA and the Fund, TWCA is responsible for processing all payments to and from the Fund's operating accounts. These duties include the preparation of outgoing checks and payment for all general invoices submitted to the Fund as well as the acceptance and deposit of all Fund member contributions, premiums, and other income. For these functions, TWCA complies with its procedures above and also the following internal processes as approved by the Fund:

A. Cash Receipts

- The Fund Administrator is responsible for preparing invoices and mailing them to the Fund members; assuring all deposits made by TWCA and all electronic transmissions directly from Fund members have been made correctly; posting all receipts to the proper Fund member's account; posting accounts receivable transactions to the general ledger; preparing an aged accounts receivable report; contacting Fund members about past due balances; and informing the Fund board regarding cash receipts and outstanding balances.
- TWCA is responsible for receiving all check payments mailed from Fund members; entering the appropriate payment information in the check log; preparing the bank deposit slips, stamping the checks for deposit, making the deposits at the bank, and obtaining the deposit receipt; forwarding copies of the appropriate information to the Fund Administrator for posting; and processing and mailing subrogation, reinsurance and deductible recoveries along with any overpayments to Fund members as indicated by the Fund Administrator.

B. Operating account disbursements

- The Fund Administrator is responsible for forwarding all operating fund disbursement requests to TWCA in a timely manner; keeping internal records of all disbursements made by the Fund; and informing the Fund board of all operating account disbursements requests of TWCA.
- TWCA is responsible for paying all Fund operating expenses from the applicable master or operating disbursement account on a timely basis; ensuring that two authorized signatures are on all check payments; authorizing the Fund Administrator to perform electronic (ACH) transfer of funds when deemed appropriate or required to make time sensitive disbursements (e.g. reinsurance premiums), with careful review and prior approval by two TWCA representatives; and forwarding copies of checks and invoices to the Fund Administrator for posting.

C. All claims disbursements, bank reconciliation, and audits are handled by the Fund Administrator.