

The Springs at Santa Rita Homeowners Association

Fiscal Policies and Procedures

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Accounting Procedures

This section covers basic accounting procedures for the organization. The accounting procedures used by the organization shall conform to Generally Accepted Accounting Principles (GAAP) to ensure accuracy of information and compliance with external standards.

Basis of Accounting

Policy: The organization uses the cash basis of accounting. The cash basis is the method of accounting whereby revenue and expenses are recognized at the time of receipt or payment of cash.

Procedures: Revenue is always recorded in the month in which received.

Throughout the year, expenses are recorded into the month in which they are paid.

The books are closed on the last day of the month.

At the close of the fiscal year all expenses are recognized when payment of cash is made.

Journal Entries

Policy: Journal entries are used for correcting, reclassifying and entering non-cash entries.

Procedures: Journal entries can only be made by authorized personnel.

Bank Reconciliations

Policy: All banks statements will be opened and reviewed in a timely manner. Bank reconciliation and approval will occur within 20 days of the close of the month.

Procedures: All bank statements will be opened and reviewed by the Treasurer upon receipt.

Once reviewed, bank statements are to be reconciled to the book balance.

The Treasurer will reconcile the statements and indicate by signing and dating the reconciliation document.

Internal Controls

The organization employs several safeguards to ensure that financial transactions are properly authorized, appropriated, executed and recorded.

Conflict of interest

Policy: All members of the Board of Directors are expected to use good judgment, to adhere to high ethical standards, and to act in such a manner as to avoid any actual or potential conflict of interest. A conflict of interest occurs when the personal, professional, or business interests of a Board member conflict with the interests of the organization. Both the fact and the appearance of a conflict of interest should be avoided.

Procedures: Upon election each Board member shall provide a written disclosure of all direct or indirect financial interests that could potentially result in a conflict of interest. This written disclosure will be kept on file and updated as needed. Should there be any dispute as to whether a conflict of interest exists the Board of Directors shall determine the appropriate action.

Segregation of Duties

Policy: The organization's financial duties should be separated to the extent possible. Because of the size and limited personnel the duties are not distributed. The Treasurer's duties and reporting aims for maximum protection of the organization's assets while considering efficiency of operations.

Physical Security

Policy: The organization maintains physical security of its assets to ensure that only people who are authorized have physical or indirect access to money, securities and other valuable property.

Procedures: The Office Manager is responsible for maintaining organized files to support the current year's transactions and to change files at the end of each year. Permanent files should be safeguarded. Checks are not to be written payable to cash. The organization follows a written document retention and destruction policy.

Financial Planning & Reporting

The organization's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The presentation of the Financial Statements shall follow the recommendation of the Financial Standards Board. Accordingly, the net assets of the organization are classified as retained earnings.

Budgeting Process

Policy: The organization's annual budget is prepared and approved annually for all revenue and expense categories. The budget is prepared by the Treasurer in conjunction with each Committee Chair, the Finance Committee and the Capital Reserve Committee. The budget is to be approved by the Board of Directors at the December Board meeting. The budget can only be revised during the year with approval by the Board of Directors.

Procedures: The Treasurer will work with the Chair of each Committee (Board Member) to ensure that the annual budget is an accurate reflection of programmatic and infrastructure goals for the coming year. Each Chair will submit anticipated expenses and project. Each committee Chair will ensure that the budget is developed using the organization's standard revenue recognition and cost allocation procedures. (August/ Sept/October) The Treasurer will work with the Capital Reserve committee to establish the recommended contribution for the upcoming year.

The Treasurer will present a draft budget to the Finance Committee no later than mid-October for concurrent review and developing a recommendation of the annual assessment to the Board of Directors.

The Finance Committee shall review and approve a recommended fiscal year budget which shall contain revenue and expenses forecasted by month.

Upon presentation of the recommended budget the Finance Committee will recommend to the Board the amount of the annual dues to be paid by the homeowners for the upcoming year.

The Board of Directors will review the proposed budget and approve the annual assessment at a November Board meeting.

Internal Financial Reports

Policy: The organization prepares regular financial reports on a monthly basis. All reports are finalized no later than the following monthly meeting of the Board of Directors.

Procedures: The Treasurer is responsible for producing the following monthly reports within 8 days of the end of the month: Balance Sheet and Profit and Loss Statement. The Treasurer prepares an annual financial report to be presented at the Annual Meeting. The Finance Committee reviews financial reports on a quarterly basis.

Audits

Policy: It is the Finance Committee's responsibility to conduct or arrange an annual audit of the records and to review the audit and advise the Board of Directors of any problems noted in the audit, including corrective actions that should be taken.

Tax Compliance

Policy: The Association is required to file Form 990 tax return as a tax exempt 501(c)(4) corporation.

Procedures: The Treasurer is responsible for filing Form 990-Return of Organization Exempt From Income Tax with the Internal Revenue Service electronically annually.

The Board members are required to review the Form 990 each year before the filing.

The organization is required to file an Annual Report to the Arizona Corporation Commission by May 6th of each year.

Revenue

Invoice Preparation

Policy: Statements for annual dues will be mailed to each Homeowner the last week of November.

Procedures: The statements for the following year's dues will be prepared and mailed by the first of December by the Office Manager. The dues are due on the first of January. For record keeping purposes the dues are posted to an accounts receivable subsidiary account and transferred to the dues revenue account when received and deposited.

Receipts

Policy: Revenue is recognized as cash and checks are received and are recorded in accordance with Generally Accepted Accounting Principles (GAAP).

Procedures: As checks are received, the Office Manager, stamps them with an endorsement stamp. The Office Manager records the checks received for dues in a receipts register to back up the bank deposit which is done in a timely manner. Checks for dues, late fees and disclosure fees that come in separately are stamped and recorded in the deposit book and taken to the bank. The Treasurer is responsible for posting the deposits to the bank accounts which creates revenue to the general ledger which is recorded and credited to the appropriate revenue lines as presented in the annual budget and coded as designated in the organization's Chart of Accounts.

Expenses

Independent Contractors

Policy: In preparation of the annual budget expenses all contracts need to be reviewed.

Procedures: Independent contractors and vendors agreements require review and adjusted if necessary. Three bids should be obtained from outside vendors when evaluating new projects unless otherwise approved by the Board of Directors. No contract shall be for a period longer than one year, unless it contains a right of cancellation on behalf of the Association with 30 days notice.

Preferred Vendors

Policy:

Invoice Approval

Policy: Invoices from vendors are to be approved by Committee Chairmen or authorized personnel.

Procedures: Invoices for recurring expenses, water, electricity, landscaping maintenance, gate maintenance, can be processed by the Treasurer for payment without approval. Invoices for expenses contracted for office or inspection services are to be approved by the President and or the ARC Chairman. Expenses for legal fees, insurance, GVCC membership and master association dues to be approved by the President. Any expense over \$100.00 is to be approved by the Committee Chairman and expenses over the budgeted total need Board approval.

Expense Reimbursement

Policy: The organization will reimburse an individual for expenses spent for HOA purposes.

Procedures: The expenditure must be substantiated by an original receipt and submitted along with a Reimbursement Request Form which must be signed, dated and approved, if necessary. The request form must contain the purpose of the expenditure and identify what account should be charged. Any expenditure over \$100.00 must be approved by the Committee Chair person. Credit card statements will be accepted as supporting documentation for the expense.

Asset Management

Cash Management and Investment

Policy: Cash management is a broad term that refers to the collection, concentration, and disbursement of cash. The goal is to manage the cash balances of the organization in order to maximize the level of liquidity, control disbursements and evaluate investment strategies.

Procedures: Establish and control a conservative budget. The Board of Directors will have the final approval of any cash investment transactions.

Operating Savings

Policy: The operating surplus cash balance for the organization is to be maintained at three (3) months of the average operating expenses.

Procedures : The operating savings balance will be funded with surplus unrestricted operating funds. At the end of the year the Balance Sheet reflects the total operating account balances. The calculation of the monthly average is basically 25 percent of the annual budgeted expenses and includes all recurring, predictable expenses and ongoing services.

Capital Reserve Fund

Policy: The Capital Reserve Fund is a critical part of the HOA's financial health. The purpose of the Capital Reserve Fund is to provide sufficient funding for future repair and maintenance of assets such as common areas and facilities, thereby protecting the individual property value and the function and beauty of the community. CC&R 7.11.1 The association shall maintain a reserve account with the funds therein being used for new construction or for the periodic maintenance, repair and replacement of the Roads, Common Areas and other property.

Procedures: The Reserve Committee reports to the Board of Directors as the Board has final authority in managing the HOA funds.

CC&R 7.11.2 The reserve fund shall be funded by a portion of the Annual Assessments rather than by Special Assessments. The amount allocated to reserves shall be deposited by the Association in separate bank accounts to be held in trust for the purpose(s) for which they are collected.

The Reserve Committee meets to review the Reserve Study along with activity and component additions. (September/ October)

The reserve study is a document that helps keep the physical and financial assets in balance and is a budget planning document. This study is reviewed and updated each year by the Reserve Committee.

The calculation for the Reserve Fund contribution is based on base cost, life expectancy remaining life of the fund components and an inflation factor.

The Funding Goal is to be fully funded at the end of the component's life expectancy and is based on four funding principles: Sufficient cash, Stable contribution rate, Evenly distributed cost to homeowners and Fiscal responsibility.

To request the use of capital reserve funds a Committee Chair must submit a request to the Board of Directors during the budget procedure. The request will include the analysis and determination of the use of funds and period for replenishment. The organization's goal is to replenish the funds used and restore the Capital Reserve Fund to the target minimum amount.