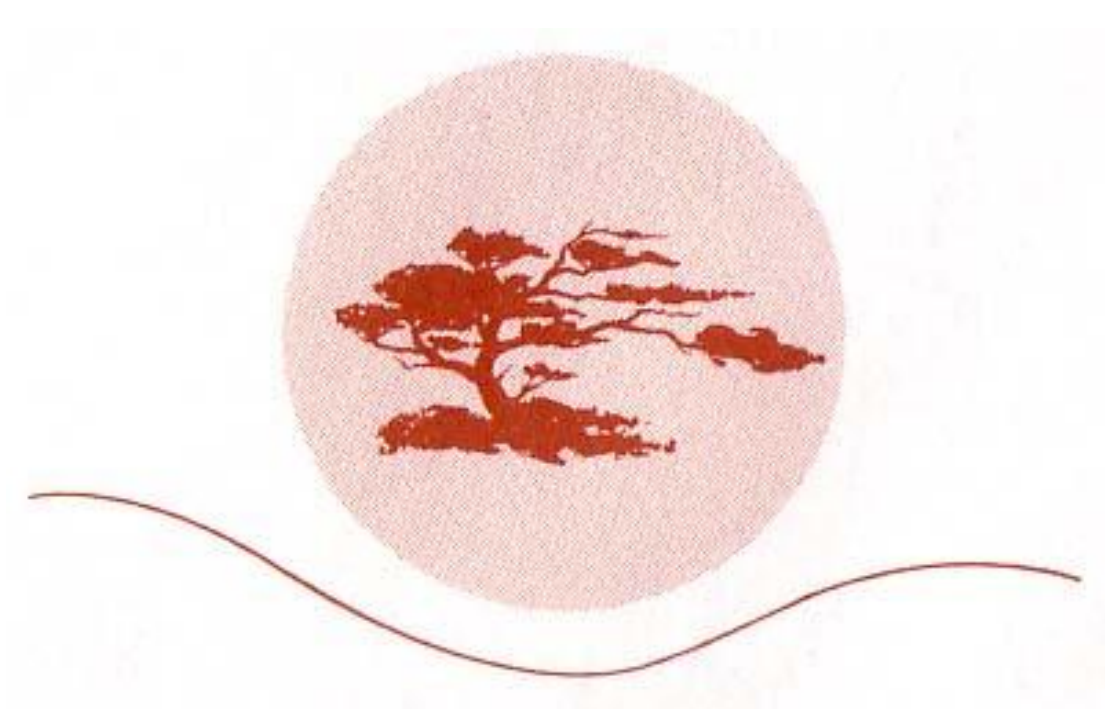


Salishan Hills Owners Association

FINANCIAL POLICIES



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FINANCIAL POLICIES

BUDGET, FINANCE AND BUSINESS OPERATION

<u>SECTION</u>		<u>PAGE</u>
SECTION 1	ADOPTION OF FINANCIAL AND BUDGET POLICES.....	1
SECTION 2	FORMULATION OF SHOA BUDGET.....	1
SECTION 3	BUDGET COMMITTEE – MEMBERSHIP & RESPONSIBILITIES....	1
SECTION 4	BUDGET CALENDAR.....	2
SECTION 5	BUDGET ADMINISTRATION.....	3
SECTION 6	DEPOSITORIES AND DISBURSEMENT OF FUNDS	3
SECTION 7	SYSTEM OF ACCOUNTS	4
SECTION 8	AUDITS, REVIEWS, COMPILATIONS.....	4
SECTION 9	PROPERTY INVENTORY	5
SECTION 10	PROPERTY APPRAISAL.....	6
SECTION 11	RISK MANAGEMENT & INSURANCE PROGRAM.....	6
SECTION 12	PERTINENT SHOA DOCUMENTATION	7
SECTION 13	INVESTMENTS	8
SECTION 14	ACCOUNTING PROCEDURES	8
SECTION 15	TREASURER DUTIES	10
SECTION 16	BOOKKEEPER’S DUTIES.....	11

SECTION 1 ADOPTION OF FINANCIAL AND BUDGET POLICES

- A. The Board shall be responsible for developing and maintaining policies in the following areas in accordance with the Association's CC&Rs:
 - a. Financial planning policies: Reserve Study
 - b. Revenue policies: Section 5, The Plan
 - c. Expenditure policies
- B. Such policies shall be reviewed annually and adopted or affirmed by the Board during the budgeting process.

SECTION 2 FORMULATION OF SHOA BUDGET

- A. The adopted budget shall serve as the financial plan of operation and provide guidelines for carrying out the goals and objectives of the Board.
- B. Within the budget process, the Board shall:
 - a. Approve budget committee members
 - b. Conduct the budget hearing
 - c. Adopt the budget and make appropriations
- C. The Board's budget shall be prepared and adopted in full compliance with SHOA's CC&Rs (By-Laws Article VII, Section 1 d) and ORS Chapter 94 and 100.

SECTION 3 BUDGET COMMITTEE – MEMBERSHIP & RESPONSIBILITIES

- A. The Budget Committee shall consist of three Board members and five appointed SHOA owners. Appointed members shall be owners of the Hills, Islands and Bluffs.
- B. The Budget Committee shall receive no compensation for their services as members of the committee.
- C. The chairperson will be selected by the Board.

- D. The Budget Committee shall hold one or more meetings to:
 - a. Receive the budget inputs and documents, and
 - b. Provide owners an opportunity to supply input on the budget.

Board Members	President of the SHOA Board
	Vice President
	Board Member

Bluffs
 Islands
 Reserve Study Chair
 Treasurer
 Manager
 At Large

SECTION 4 BUDGET CALENDAR

- | | |
|--|---------------------|
| A. Appoint budget officer | December |
| B. Appoint budget committee members | January |
| C. Input from committees | February |
| D. Budget committee meets | March |
| E. Budget committee meets, if necessary | April |
| F. Board enacts a resolution to adopt budget | on or before May 15 |
- a. All meetings will be held two hours prior to the scheduled monthly Board meetings.
 - b. Owners will be notified on or before May 15 the amount of assessment for the following year.

SECTION 5 BUDGET ADMINISTRATION

- A. The adopted budget is the financial plan developed to carry out the programs supporting the Board's goals and objectives. No greater expenditure of SHOA's money shall be made for any specific purpose other than the amount appropriated, unless authorized by the Board. Amounts over 10% or \$500 must be submitted for Board approval, prior to expenditures as per By-Laws, Article VII, Section 8b, requires a resolution.
- B. Transfers of appropriations from one budgetary category to another or within a budgetary category shall take place only when authorized by Board resolution or adoption of a supplemental budget.
- C. Loans from reserves to fund operating expenses should be made only with authorizing resolution of the Board.
- D. The Board authorizes the Manager to approve contracts that are subject to competitive bidding requirements without prior approval of the Board, provided such contracts do not exceed \$500 and are within budget parameters.
- E. The Board will be provided financial reports on a regularly scheduled basis in which revenues and expenditures will be compared with budgeted appropriations. (See Section 12 for detailed list of reports.)
- F. In the event of a natural disaster or calamity, expenditures or authorization to expend moneys not contemplated in the budget shall be authorized by:
 - a. The Board by resolution, Or
 - b. The Manager by written authorization by Board President or designee, in the event prompt action is necessary to protect the home owners or safety following such an emergency, when it is not practical to convene a meeting of the Board.

SECTION 6 DEPOSITORIES AND DISBURSEMENT OF FUNDS

- A. The depositories for SHOA shall be designated by the Board. Funds shall be drawn out only by those person(s) authorized by the Board to sign checks and make disbursements. Payments may be authorized to be made by check, electronic funds transfer or other transfers as determined to be appropriate and in consideration of establishing banking, funds transfer, and accounting practices by those person(s) authorized by the Board to make disbursements.

- B. All receipts will be deposited to the proper account as soon as possible after they are received.

SECTION 7 SYSTEM OF ACCOUNTS

The board shall adopt and maintain standardized accounting policies meeting the standards promulgated by the Governmental Accounting Standards Board.

SECTION 8 AUDITS, REVIEWS, COMPILATIONS

- A. The Treasurer will work with the Board-designated auditor to accomplish the objective of the audit.
- B. The Treasurer shall be responsible to ensure the auditor presents the audit report to the Board.
- C. A compilation, review or audit will be performed annually in accordance with the By Laws, Article VII, Section 7 on or before September 15.
- D. **Audited Financial Statements** are the product of a CPA's highest level of assurance services. In an audit, the CPA performs all of the steps indicated above regarding compiled or reviewed statements, but also performs verification and substantiation procedures. These verification and substantiation procedures may include direct correspondence with creditors or debtors to verify details of amounts owed, physical inspection of inventories or investment securities, inspection of minutes and contracts, and other similar steps. Also, the CPA gains a knowledge and understanding of the entity's system of internal control. When the audit is completed, the CPA's standard audit report states that an audit was performed in accordance with generally accepted auditing standards, and expresses an opinion that the financial statements present fairly the entity's financial position and results of operations. This is known as the expression of "positive assurance."
- E. **Reviewed Statements** require that the CPA perform inquiry and analytical procedures in addition to the procedures described above for a compilation. Upon completion, a report is issued stating that a review has been performed in accordance with AICPA professional standards, that a review is less in scope than an audit, and that the CPA did not become aware of any material modifications that should be made in order for the statements to be in conformity with generally accepted accounting principles, or if applicable, another comprehensive basis of accounting. This is known as the expression of "limited assurance." Reviewed financial statements are often prepared for entities that have bank loans, outside investors, or trade creditors, but those third parties do not require audited statements.

- F. **Compiled Financial Statements** represent the most basic level of service CPAs provide with respect to financial statements. In a compilation, the CPA must comply with certain basic requirements of professional standards, such as having a knowledge of the client's industry and applicable accounting principles, having a clear understanding with the client as to the services to be provided, and reading the financial statements to determine whether there are any obvious departures from generally accepted accounting principles (or, in some cases, another comprehensive basis of accounting used by the entity). It may be necessary for the CPA to perform "other accounting services" - such as creating your general ledger, or assisting you with adjusting entries for your books - before the financial statements can be prepared. Upon completion, a report on the financial statements is issued that states a compilation was performed in accordance with AICPA professional standards, but no assurance is expressed that the statements are in conformity with generally accepted accounting principles. This is known as the expression of "no assurance." Compiled financial statements are often prepared for privately held entities that do not need a higher level of assurance expressed by the CPA.
- G. **Difference between Audit & Review** - There are significant differences between the objectives of an audit of financial statements in accordance with generally accepted auditing standards and the objectives of a review in accordance with statements on standards for accounting and review services. The objective of an audit is to provide a reasonable basis for expressing an opinion regarding the financial statements taken as a whole. A review does not provide a basis for the expression of such an opinion because a review does not contemplate obtaining an understanding of the internal control structure or assess control risk, tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter through inspection, observation or confirmation, and certain other procedures ordinarily performed during an audit. A review may bring to the accountant's attention significant matters affecting the financial statements, but it does not provide assurance that the accountant will become aware of all significant matters that would be disclosed in an audit.

SECTION 9 PROPERTY INVENTORY

- A. The Board shall maintain a formalized program of accountability and controls over all inventories of fixtures and equipment. The purpose of the inventory will be to satisfy reporting requirements for insurance coverage, to aid the Board in the management of equipment, to assist in budgeting for replacements and to affix the control of responsibility for the custody of equipment.
- B. The Board shall conduct an annual inventory of all assets capitalized under general accepted accounting principles. Such inventory shall be reviewed annually as part of the preparation for the audit.
- C. The Board shall also maintain and conduct inventories of equipment as required to meet established safety standards.

SECTION 10 PROPERTY APPRAISAL

- A. To ensure an adequate level of insurance, SHOA shall maintain an appraisal of all buildings including improvements, fixtures and fixed contents.
- B. A physical re-appraisal of replacement values on property and improvements shall be conducted by an external appraiser no less than each ten (10) years. The values of all buildings shall be updated annually for insurance purposes.

A review of the appraisal may be performed by SHOA's insurance chair to adjust insurance amounts as appropriate.

SECTION 11 RISK MANAGEMENT & INSURANCE PROGRAM

- A. SHOA shall provide for a program of risk management consistent with legal requirements pertaining thereto and with the ability of SHOA to finance same.
- B. SHOA shall purchase the necessary insurance. Coverage shall be adequate to protect:
 - a. Itself as a corporate body
 - b. Its Board of Directors
 - c. Its individual members
 - d. Its officers
 - e. Its employees

These groups are to be insured against financial loss arising out of any claim, demand, suit, or judgment by reason of alleged negligence or other act resulting in accidental injury to any person or damage to property within or without Salishan Hills while the above-named insured are acting in the discharge of their duties within the scope of their obligations as Board members or as employees carrying out their duties.

- C. SHOA shall purchase insurance to cover:
 - a. All real and personal property of SHOA
 - b. Losses due to employee dishonesty, injury, or death
- D. Prior to the commencement of any work or services secured by contract with SHOA, the contractor shall procure and thereafter during the term of the contract continue to carry public liability and property damage insurance with a company or companies authorized to issue insurance in the State of Oregon with limits provided by the contract. Such insurance shall cover all risks arising directly or indirectly out of the contractor's activities or performance. Certificates evidencing such insurance and bearing endorsements naming SHOA as an insured on such policy or policies of insurance shall be delivered to the Manager.

- E. Additionally, contracts shall contain a provision by which the contractor shall indemnify and hold harmless SHOA from any claim, loss, or liability arising out of or related to any activity, performance, or non-performance of the contractor in connection with said contract.
- F. The provisions for insurance and indemnification in all contracts shall be reviewed and approved by the Manager.

SECTION 12 PERTINENT SHOA DOCUMENTATION

- The Association’s Declaration, section 3.4(a) indicates the grounds of and improvements on each unit shall be maintained in a clean and attractive condition in good repair.
- The Association’s CC&R’s indicate that the maintenance fund shall be used for the payment of the cost of maintaining private ways (including street lights, entrance gate and signs), common areas and facilities on common area available for use by all of the residents of Salishan Hills.
- The Association’s Bylaws, section 1(a) indicates that the Association shall maintain, or provide for the maintenance of the private ways and common areas and all improvements thereon as provided in the Plan of Salishan Hills.
- The Reserve Study and Maintenance Plan are in compliance with the legislative changes made in 2007 to ORS Chapters 94 and 100.
- Pursuant to Oregon State Statutes Chapters 94 and 100 requiring a maintenance plan as an integral part of the reserve study, the maintenance procedures are as follows:

The Board of Directors should refer to this maintenance plan each year when preparing the annual operating budget for the Association to ensure that annual maintenance costs are included in the budget for the years that they are scheduled.

Board members will receive the following statements:

Monthly	Financial Statement Cash Flow
Quarterly	Financial Statement Cash Flow Balance Sheet Income Statement

SECTION 13 INVESTMENTS

A. Objective:

The objective of the "Investment Policy" is to provide a guideline for the investing of Operating and Reserve funds. Safety of these funds is of the paramount importance. Maturity of any investment must be correlated with the financial needs of our organization. The highest rate of return should be obtained within the confines of maturity of investment and safety considerations

B. Type of Investments:

1. **Checking Accounts**: The demand account will be maintained in a local bank with a balance equal to the average of two monthly expenditures. Payment of any obligation in the amount of **\$500** or more shall require two signatures with the exception of the check for the manager's salary.
2. **Certificates of Deposits**: Funds in CD's shall be maintained in institutions which are insured by the Federal Deposit Insurance Corporation (FDIC). Maturity of these investments is at the discretion of the Board. In order to maximize flexibility various maturities should be maintained.
3. **US Government Obligations**: US Government obligations (Treasuries) and government agency obligations.
4. **Money Market Accounts**: Money Market Accounts are to be maintained in financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC).

C. Authority:

Investment recommendations shall be made by the Treasurer in accordance with the investment policy, and reviewed and approved by the Budget/Finance Committee before submit to the SHOA Board of Directors for final decision.

SECTION 14 ACCOUNTING PROCEDURES

Bill Paying

1. Bills are received by the Manager
2. Manager codes bills for payment account and initials
3. Bills are given to the Bookkeeper for payment
4. Bills are entered into QuickBooks and checks are prepared by the Bookkeeper at least twice a month
5. Checks are signed by the Board member(s)
6. Checks are mailed to vendors by the Bookkeeper

Association Dues

1. Annual dues statements are mailed on or before May 15
2. Owners may pay annual dues in advance and receive a 3% discount
3. Checks are received by the Manager and given to the Bookkeeper
4. Checks for annual association dues are recorded by payee on QuickBooks and discounts are recorded as a credit memo
5. If annual payment is not received, quarterly payments are recorded by payee on QuickBooks
6. Quarterly statements are mailed within 15 days of prior to each quarter
7. If quarterly payments are not received within 30 days of quarter end, a \$30 per month late fee is assessed and recorded on QuickBooks
8. Late statements are sent to owners monthly as late fees accrue
9. If no payment is made with ninety (90) days, a lien is filed after approval by SHOA Board of Directors and interest of 10% per annum is assessed
10. If no payment is made within one (1) year, property is sent to Collection after approval by SHOA Board of Directors
11. Checks are deposited at Bank by Bookkeeper

Other Cash Receipts

1. Checks are received by the Manager and given to the Bookkeeper
2. Checks received for building permits, builders' deposits and entry gate remote purchases are credited to appropriate accounts on QuickBooks
3. Interest received from CD's and Money Market accounts are recorded as journal entries from bank statements
4. Checks are deposited at Bank by Bookkeeper

Labor

1. Time sheet is received by Manager on a biweekly basis and given to the Bookkeeper
2. Checks are created based on current tax rates for Social Security, Medicare, Federal and State Withholding, unemployment and other taxes as appropriate
3. Tax reporting is done quarterly for Federal and State
4. W-2 is prepared annually

Financial Statements

1. Each month the Bookkeeper prints a general ledger and Accounts Receivable Report from QuickBooks
2. Using the above-referenced reports, Bookkeeper prepares an Income Statement, Balance Sheet and Cash Flow Report
3. Reports are reviewed by the Treasurer
4. Cash Flow Reports are presented to the SHOA Board of Directors monthly
5. Balance Sheets and Income Statements are presented to the SHOA Board of Directors quarterly or upon request

Bank Account Reconciliation

1. Receive bank statements from Manager
2. Reconcile bank statements with corresponding accounts on QuickBooks
3. Make adjustments as necessary

Taxes

1. Compile required information for Accountant as directed by Treasurer
2. Prepare by January 31, 1099 forms for independent contractors and non-corporate suppliers to whom payments of \$600 or more are made
3. Prepare IRS Form 1096 and send with 1099s to U.S. Treasury

SECTION 15 TREASURER DUTIES

BI-WEEKLY

1. Sign checks as needed

MONTHLY

1. Review following reports generated by Bookkeeper:
 - (a) general ledger
 - (b) cash flow
 - (c) delinquent account summary
2. Report to Board at monthly meetings on financial health of Association

QUARTERLY

1. Review following reports generated by Bookkeeper:
 - (a) general ledger
 - (b) cash flow
 - (c) balance sheet
 - (d) income statement
 - (e) payroll summary
 - (f) accounts payable summary
 - (g) accounts receivable summary
 - (h) delinquent account summary
2. Review payroll tax statements

ANNUALLY

1. Provide following reports as of 6/30/10 to CPA for use in preparing year end Income Tax Return
 - (a) General Ledger
 - (b) Balance Sheet
 - (c) Income Statement
 - (d) Depreciation Schedule
2. Provide owners with financial statements within 90 days of the close of the fiscal year
3. Oversee annual budget and reserve fund and present to Board
4. Participate in Strategic Planning Committee process and make recommendation on project feasibility
5. Review employees' and independent contractors' compensation and make recommendations to Board regarding availability of funds for increases
6. Oversee Manager's collection of beach access card funds
7. Review and make recommendations on reserve investments
8. Make recommendations on need for review or audit of books and records of Association
9. Present financial information at Annual Meeting

SECTION 16 BOOKKEEPER'S DUTIES

Bill Paying

7. Receive bills coded by Manager
8. Enter bills into QuickBooks
9. Prepare checks at least twice a month
10. Get checks signed by the Board member(s)
11. Mail checks to vendors

Association Dues

12. Prepare and mail annual dues statements on or before May 15
13. Receive and post checks
14. Deposit checks at bank
15. Mail quarterly statements within 15 days prior to each quarter
16. If quarterly payments not received by end of payment period, record a \$30 late fee per month on QuickBooks

17. Send late statements to owners
18. If no payment is made with ninety (90) days,
 - a. send to Collection after approval by SHOA Board of Directors
 - b. begin accruing interest @ 10% per annum
19. Prepare delinquent list for SHOA Board of Directors monthly

Other Cash Receipts

5. Receive checks for building permits, builders' deposits and gate remote purchases and credit to appropriate accounts on QuickBooks
6. Record interest from CD's and Money Market accounts as journal entries from bank statements
7. Deposit checks at bank

Labor

5. Receive time sheet from Manager on a biweekly basis
6. Create paycheck based on current tax rates for Social Security, Medicare, Federal and State Withholding, unemployment and other taxes as appropriate
7. Prepare annual payroll tax reporting for Federal (Forms 940 & 941) and State (Forms 132, OQ)
8. Prepare IRS form W-2 annually

Financial Statements

6. Print a general ledger and Accounts Receivable Report from QuickBooks monthly
7. Prepare Income Statement, Balance Sheet and Cash Flow Report
8. Review reports with Treasurer
9. Present Cash Flow report to the SHOA Board of Directors monthly
10. Present Balance Sheet and Income Statements to the SHOA Board of Directors quarterly or upon request

Bank Account Reconciliation

4. Receive bank statements from Manager
5. Reconcile bank statements with corresponding accounts on QuickBooks
6. Make adjustments as necessary

Taxes

4. Compile required information for Accountant as directed by Treasurer
5. Prepare by January 31, annual Federal and State 1099 forms for independent contractors and non-corporate suppliers to whom payments of \$600 or more are made
6. Prepare IRS Form 1096 and send with 1099s to U.S. Treasury

Other Duties

1. Maintain mailing lists for SHOA unit owners
2. Send bills for Beach Access Card usage
3. Provide mailing labels for newsletters
4. Respond to escrow companies regarding dues status
5. Maintain depreciation schedule
6. Update web page as needed