

**KINGSTOWNE RESIDENTIAL OWNERS CORPORATION**

**ADMINISTRATION RESOLUTION NO. 24**

**(Financial Procedures Policy)**

WHEREAS, Article III, Section 3(b) of the Declaration of Covenants, and Restrictions of the Kingstowne Residential Owners Corporation (“KROC”) states that “the Board of Trustees shall have all powers for the conduct of the affairs of the Residential Corporation which are provided by law or the Founding Documents and which are not specifically reserved to Members of the Declarant in the Founding Documents;” and

WHEREAS, the Board of Trustees finds it prudent to establish procedures for all financial functions of KROC;

NOW, THEREFORE, BE IT RESOLVED that the following financial procedures policy is duly adopted by the Board of Trustees:

**BUDGETS**

The corporation operates with three budgets: operating budget, capital repair and replacement budget and capital improvement budget. Each budget covers a twelve month period (January – December) and is tracked on a month by month basis.

**Operating Budget**

This budget accounts for income and expenses used for the everyday operations of the community. The expenses are broken out into seven categories: administration, operations, pools and centers, capital reserves, townhouse/single family units, and other. The income and expenses associated with the townhouse/single family units is further segregated to ensure only assessments attributed to these types of units are used to pay for expenses associated with these types of units.

**Capital Repair and Replacement Budget**

This budget accounts for income and expenses used to maintain common area assets as determined by periodic reserve studies performed by third party engineering firms. The income is provided through contributions to reserves from the operating budget.

**Capital Improvement Budget**

This is a discretionary account used for improvements to common area elements. The income is provided through contributions to reserves from the operating budget.

**BUDGET DEVELOPMENT**

Budget development takes place on an annual basis under the following general guidance:

- Feb/March: Budget planning with the Board of Trustees (BOT), if requested.
- April/May: Budget assumption development & large category discussion w/ BOT
- May: Budget Data Gathering - review of prior year & current income and expenses  
Review multiple year contracts for renewals

June: NAB Spring Meeting – discuss major cost areas  
 BOT submits budget assumptions including potential capital projects  
 Staff begins to draft budget

July: Financial Advisory Committee (FAC) meeting – review BOT budget assumptions  
 Staff reviews BOT assumptions, six month financials and drafts budget  
 Staff reviews draft budget w/ Treasurer and FAC Chair  
 Preliminary budget information submitted for publication for the August 31, 2010  
 Kingstonian

August: FAC Meeting – review draft budget and refine  
 BOT Meeting – review draft budget and refine  
 Budget information submitted for publication in the September Kingstonian

September: FAC meeting – review resident comments, refine draft budget  
 BOT Meeting – review resident comments, refine draft budget  
 Budget information submitted for publication for the October Kingstonian

October: FAC Meeting - review resident comments, makes adjustments & submits the  
 final budget to the BOT  
 BOT Meeting – BOT reviews resident comments and takes action on final budget  
 Annual Meeting – budget is announced  
 Final Budget submitted for publication for the November Kingstonian

Assessment changes are communicated to owners at the KROC Annual Meeting, in the November issue of the Kingstonian, and through coupon books mailed to owners in December by the financial management company (currently Armstrong Management Services).

Operating budget adjustments are made approximately three times a year; in January, July and September. These adjustments are made to account for any changes and to reflect actual income and expenditures within each line item. All budget adjustments are reviewed by the FAC and recommended to the board.

### **CASH RECEIPTS PROCEDURE:**

#### Assessments

Assessment payments are not accepted at the business office. An offsite lock box receives assessment income accompanying a payment coupon. Assessment income not sent with a coupon is received at the offices of the financial management company.

#### Violation/Fee Income

Architectural violations and/or maintenance fees such as lawn mowing income is not accepted at the business office. This income is received at the offices of the financial management company, as well.

#### Rental Income

Rental income is received either by money order, cashers check or credit card at the KROC business office and forwarded to the financial management company weekly.

### Pool Guest Pass Income

Pool guest pass income is received either by cash or check at the KROC business office. All cash received is deposited into the KROC petty cash checking account and a check is written and forwarded to the financial management company weekly with the other income. Pool guest pass income is received by check only at both pools and forwarded to the financial management company weekly.

### Replacement Pass Income

Replacement pass income is received either by cash or check at the KROC business office. All cash received is deposited into the KROC petty cash checking account and a check is written and forwarded with the other income to the financial management company weekly.

### Resale Disclosure Income

Resale Disclosure Income is received by check at the KROC business office and forwarded to the financial management company weekly. Most Resale Disclosure Income is sent directly to the financial management company from the settlement company once the property is sold.

### Advertising Income

Advertising income for the Kingstonian is received by check or cash and forwarded to the publishing company (currently Marlborough Publishing) monthly.

### Miscellaneous Income

Other income received at the business office from PUD (Planned Unit Development) statements, County payments for hosting elections and other income is forwarded to the financial management company weekly.

### Assessment Delinquencies

Homeowners that are one month behind on their assessment payments receive a reminder coupon from the financial management company. Once the account is two months behind the financial management company sends a demand letter to the homeowner. Accounts that continue to be delinquent are identified and forwarded to the KROC financial administrator for review prior to going to the attorney for collections. Each delinquent homeowner is contacted by the financial administrator either by phone or letter if no working phone number is found. The homeowner is notified that the account is delinquent and given a time frame in which to pay. They are informed that the account will be forwarded to the attorney for collections if payment is not made. Once all the homeowners are contacted the financial administrator sends an email to the financial management company stating which accounts to send on for collections and when to send them. If no payments have been received by the due date the financial management company sends the account to the attorney.

### **CHECK RECEIPT PROCEDURES**

Only checks from current homeowners are to be received as payment for pool guest passes and/or replacement passes. Checks from current homeowners or realtors are accepted for resale disclosure packets.

## **PAYROLL**

Payroll is biweekly. Staff submits their timesheets every other Friday afternoon to the appropriate KROC Timesheet folder under Manager on server 2. The timesheets are reviewed by the financial administrator and forwarded to the executive director for approval. Timesheets are forwarded to the financial management company no later than the following Monday for processing and paychecks are received on the following Friday. The financial management company payroll department releases payroll and employment information only to the executive director, president or treasurer.

## **EXPENSES**

Every effort will be made to charge expenses into the month in which the expense actually occurred. Expenses items that are accrued will be reversed the following month. All invoices and statements are date stamped and distributed for approval to the appropriate person. All approved invoices are returned to the financial administrator who enters each invoice into the Kingstowne Information Management System (KIMS). Once a week (Wednesday) invoices are forwarded to the executive director for approval. Once all the invoices are approved by the executive director, they are scanned into KIMS and transmitted (Thursday) to the financial management company for processing. The financial management company processes the checks for distribution no later than the following Monday. Occasionally, check requests are made out of cycle but the appropriate expense procedures are always followed. All checks are posted on monthly cash disbursement reports that are provided to the board on a routine basis.

## **PREPAID EXPENSES**

These are expenses that are paid in advance and are for more than a one-month supply or service. These expenses will be recorded into account 15000 Prepaid Expenses and charged to the proper expense account on a monthly basis.

## **TRAVEL EXPENSED**

Travel expenses must be reported on a travel expense report. The mileage reimbursement rate will be the rate established by the Federal Government in their annual publication for business expenses.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Purchase Orders**

Purchase orders are used for the purchase of goods and services. They must be generated and approved prior to the commitment to purchase.

1. Complete the purchase order form identifying the good or service, the source, quality, price, delivery, tax and account number
2. All Purchase Orders are submitted to the executive director
3. Approval of Purchase Order by executive director
4. Purchasing of good or service
5. Tracking and follow-up on order if needed
6. Receiving and inspection of order

### Credit Card Purchases

Company credit cards are used exclusively for corporation business. Credit limits are strictly enforced. Employees must keep their original receipts and reconcile their credit card statement every month. Receipts must be attached to the statement and expenses must be coded and validated prior to turning them in for payment. Note- Each individual credit card charge is tracked in KIMS and coded to an expense category. This information is readily available for review upon request.

### Petty Cash

Cash Box – The cash box is kept in the fireproof locked file cabinet at the desk of the financial administrator. The funds are intended to be used for purchases less than \$30. For purchases already made, staff must fill out a “Reimbursement Form” noting the purchase, account number and total amount. They must sign the form and attach the receipt. To receive money prior to a purchase, a “Cash out Ticket” must be filled out and signed. Once the purchase is made the staff must return with the receipt and any remaining change.

### Checking Account

The local petty cash checking account is used to convert cash to check when sending weekly income to the financial management company. All cash received is deposited into the checking account. The bank statement and internal tracking spreadsheet will be forwarded to the financial management company monthly for reconciliation. The financial management company receives a copy of the monthly bank statements from the local account.

### Accounts Payable – Invoices Received at the Business Office

1. Invoices received at the KROC business office are date stamped, validation code stamped and distributed to the appropriate person for validation.
2. Staff receiving invoices for validation must ensure the invoice is correct, verify all required documentation is present, code the expenses, validate the invoice and forward it to the financial administrator for processing.
3. The financial administrator verifies that the appropriate account codes are used, all documentation is present, all costs are valid, and enters the expense into the Kingstowne Information Management System (KIMS).
4. Once a week all invoices are forwarded to the executive director for approval.
5. Once all the invoices are approved they are returned to the financial administrator and each invoice is scanned into the appropriate entry in KIMS.
6. A weekly financial transmittal is prepared. This prepares an email for the financial management company which attaches an Excel spreadsheet of the invoices to be paid and the scanned invoices.
7. Any special requests are noted in the email and the transmittal is sent.
8. The financial management company receives the invoices and processes them for payment.
9. Special check requests are processed the same way but are transmitted when needed and are not included with the weekly transmittal.

### Accounts Payable – Invoices NOT Received at the Business Office

The financial management company will email the KROC Executive Director for approval when invoices are received at their offices.

### **BANK STATEMENT RECONCILIATIONS**

Bank statements are reconciled at the offices of the financial management company and forwarded to the KROC business office monthly.

### **MONTHLY FINANCIAL REPORTING**

Financial reports are produced at the offices of the financial management company and forwarded to the KROC business office monthly. These reports include the balance sheet, income statement, income projections, bank statement, general ledger, cash disbursements, cash accounts, delinquent accounts, and investment schedule. A monthly memorandum is also produced, reporting on significant variances. KROC Staff produces a monthly memorandum reporting on significant variances as well.

### **DEPRECIATION**

The depreciation schedule is kept by the financial management company. Purchases and/or disposed goods are reported to the financial management company when occurred.

### **CAPITALIZATION**

Items which cost \$1000 or more are capitalized.

### **BANK ACCOUNTS**

The corporation has two bank accounts. The operating cash checking account is managed through the financial management company. The petty cash checking account is managed at the KROC business office. All checks require two signatures.

### **ANNUAL FINANCIAL REPORTING**

An audit of the financial conditions of KROC is performed annually by a third party firm under the direction of a Certified Public Accountant (CPA) experienced in nonprofit financial reporting. A volunteer task force reviews the financial statements with the auditor and makes recommendations to the BOT. Annual tax returns are produced by this firm as well and are submitted prior to May 15<sup>th</sup>.

### **RESOURCES RELATED TO FINANCIAL RESPONSIBILITIES AT KROC**

KROC Articles of Incorporation: Article II & IV

KROC Bylaws: Article VI & VII

KROC Declaration of Covenants and Restrictions: Article III & VI

KROC Administrative Resolutions:

- Administration Resolution 01: Homeowners Fee Policy
- Administrative Resolution 01-16: Maximum Annual Assessment
- Administrative Resolution 03: Trustee Expense Reimbursement Program
- Administrative Resolution 03-19: Year End Resolution of Account Delinquencies

- Administrative Resolution 08: Composition and Operating Procedure for FAC
- Administrative Resolution 09-22: Long Range Planning Committee Terms of Reference
- Administrative Resolution 15: Investment Policy Statement

KROC, Executive Directives and Decision Making Matrix

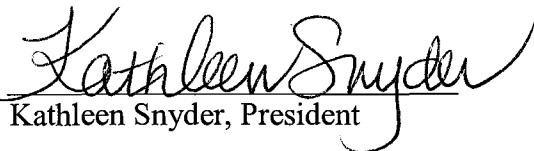
KROC, Audit Task Force Terms of Reference (i.e. Administrative Resolution #09-22)

KROC, FAC Terms of Reference (i.e. Administrative Resolution # 09-22)

The Effective date of this Resolution shall be July 13, 2010.

I hereby certify that this Administration Resolution was duly adopted by the Board of Trustees at a regular meeting on July 13, 2010.

KINGSTOWNE RESIDENTIAL OWNERS CORPORATION

By:   
Kathleen Snyder, President