

BIRCH BAY VILLAGE FINANCIAL MANAGEMENT POLICIES

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APPROVED

FINANCIAL MANAGEMENT

1. ACCOUNTS PAYABLE

1.1. *INVOICE PROCESSING*

1. All invoices are sent either via postal mail or electronically to AVID exchange for processing.
2. Invoices are first reviewed/coded by bookkeeper. Upon approval, General Manager reviews and approves them. For invoices that require signature, 2 Board Members must approve the invoice.
3. All invoices are posted using accrual method.

1.2. *VENDOR MANAGEMENT*

1. All vendors who are not incorporated and are anticipated to be paid more than \$600 in total for services (excluding goods purchased if noted) must have a completed W9 and certificate of insurance on file before services are rendered and payments disbursed.
2. Form 1099s will be issued for all non-goods related vendors who are paid \$600 or more in a calendar year.

1.3. *ACCRUAL BOOKKEEPING*

1. In general, BBVCC uses a modified accrual basis of accounting. In this, we allocate expenses in the month they are incurred – be it prepaid expenses or liabilities. For income, we allocate when they are payable and due. We do not amortize the assessments monthly; rather, we capture them their designated payment plans.
2. Some other minor exceptions:
 - ◆ Water bills are billed bi-monthly and expensed the date of the bill as opposed to accruing monthly.
 - ◆ Depreciation is reconciled annually as opposed to monthly.
 - ◆ Paid time off is reconciled annually.

1.4. *CREDIT CARD RECONCILIATION*

1. Credit card transactions are accrued during month of transaction per receipt.
2. The cut-off for the billing statement is the 15th of the month, with automatic payment withdrawn the following day. Billing statement is reconciled to the accrual account upon receipt of statement.
3. On some occasions, Manager may pay the balance of the credit card account before the automatic withdraw date. Situations such as quarter/year end closing could prompt this. Manager provides documentation to bookkeeper for appropriate journal entries and record keeping.
4. Credit card has spending limit of \$10,000, with allocations as follows:
 - ◆ \$8,000 – General Manager
 - ◆ \$500 – Maintenance Supervisor

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- ◆ \$500 – Office Supervisor
- 5. Current bills that are paid automatically via Credit Card
 - ◆ Water bills
 - ◆ Comcast
 - ◆ Ziplly Fiber
 - ◆ Sanitary Services
 - ◆ Zoom
 - ◆ TOPS ONE

2. PAYROLL PROCESSING

2.1. *PAYROLL*

1. Biweekly processing, 26 payrolls/year
2. Weeks run from Sunday-Saturday
3. Paydays are Wednesdays

2.2. *TIMESHEETS*

1. All employees use timeclick to check in and out.
2. Office assistant generates timeclock reports for all employees for General Manager to review along with time sheets submitted by staff on the Monday prior to pay day.
3. Once finalized, bookkeeper enters timesheet information into ADP. General Manager reviews pre-processing reports the same day and submits final authorization.
4. Within 2 days, bookkeeper posts payroll entries into the accounting system.
5. Journal entry reports along with payroll reports/timesheets/PTO approved requests are filed in a locked drawer in the General Manager's office.

2.3. *PAYROLL LIABILITIES*

1. Premium related benefits – Medical, dental, and life benefits are prepaid upon receipt of billing statement. For employees that pay additional premiums for spouses/dependents, these amounts are held in the “Payroll Liability” liability account until billing is received.
2. Retirement benefits – Amounts withheld from an employees’ payroll for contribution to IRA must be transferred to Vanguard within 30 days of month end. The employer match portion of the IRA must be paid by the due date of the employer’s tax return for the year (including extensions). In practice, however, the employer match is made simultaneously with the employee contribution. This is done online by the bookkeeper.
3. Withholdings – Any tax related filings, contributions, and garnishments are automatically withdrawn by third party payroll processing and distributed accordingly.

2.4. YEAREND PAYROLL

1. For W-9s and year end filing requirements, third party payroll processor handles all requirements and filings.
2. Bookkeeper distributes documents to staff for completion as required for benefit renewals, FSAs, and IRA contributions during appropriate open enrollment periods and makes the proper filings.
3. Payroll liabilities are accrued/expensed as close to actual by day should the first pay period of the new year reflect days during the prior year.

3. ACCOUNTS RECEIVABLE

3.1. BILLING OF ASSESSMENTS

1. Annual bills, citing the payment plan amounts owed, are sent out no later than 12/1 of each year (for due date 1/1).
 - ◆ Bills are sent both electronically as well as paper form, regardless of billing preference.
 - ◆ Included in this billing is payment instructions and an emphasis to use online and/or PO Box address.

3.2. STATEMENTS

1. Past due statements are sent out monthly by the 10th of the month showing any balance due after interest has been added. Owners who have enrolled in electronic billing will receive these statements via email.
2. Statements are not sent for dues other than the annual notice unless they are past due (over 30 days).

3.3. PAYMENT TYPES

1. The following methods of payment may be used to pay any amounts due to the HOA:
 - Credit Card – online only through website. Fee applies.
 - Check – Preferred method - online or via mail/bill pay to lockbox address.
 - Cash is strongly discouraged, but not turned away. Receipts must be given to anyone paying cash. No change is given. Accumulated cash in excess of \$100 is deposited daily.

3.4. SUMMARY COLLECTION POLICY (SEE COLLECTION POLICY RESOLUTION)

1. After 30 days past due (after January 31st for annual dues), late fees of 10% are added to accounts for all charges except interest and late fees.
2. Interest is applied on the last day of each month on the assessment balance at 8% APR.
3. When accounts are 45 days past due, they are sent a notice inviting them to a hearing before the Board of Directors.

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4. At this hearing, either an agreement to become current is reached or the Board proceeds with filing a lien, shutting off bar codes, and denying amenities.

3.5. ACC/COMPLIANCE FEES

1. Fines are added to owners' account per fine policy.
2. All owners who have a fine assessed are given 15 calendar days to appeal the fine. Once the appeal is filed, the fine due date is changed to allow for sufficient due process without incurring fees or interest.
3. Once the appeal timeline has passed (or if the appeal process upholds a fine), owner is sent a follow up notice reflecting the final fine amount and 30 day due date.

3.6. INSUFFICIENT FUND CHARGES

1. Insufficient fund charges are charged on all returned payments

3.7. ACH

1. ACH Sign up – prefer self-service through TOPS Pay. However, we can set up ACH inhouse:
 - ◆ Requires completed & signed form
 - ◆ Forms are processed by General Manager
 - ◆ Forms are stored in locked cabinet and destroyed when cancelled
2. ACH is processed 5 days after the respective charge is applied.
3. Any changes needed to be made by owner need to be submitted 3 banking days before scheduled withdraw date.
4. If an ACH transaction is returned for insufficient funds due to owner error, NSF charge is added. Owner will still have until the 31st of the month to pay before late fees are added. It will be the option of the owner to continue ACH for future installments.

3.8. BAD DEBT

1. The General Manager only writes off owner balances unless one of three things has occurred:
 - ◆ Owner has filed bankruptcy and no longer owns the property.
 - ◆ In the case of an owner who has filed bankruptcy and still owns the property, past due amount “stays with the property” (unless a foreclosure occurs) and will be collectable by next owner. The amount, however, cannot be billed to the current owner until the property is resold. The Board has the option of writing this amount off as well.
 - ◆ The Board has agreed that the debt is uncollectable (i.e. legal fees without final judgement to collect them).
2. Each year, the allowance for bad debt (negative asset on balance sheet) is reviewed and adjusted using the following conditions:
 - ◆ Balance due of a home that is currently in foreclosure without a reasonable chance of collecting amount due from owner.

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- ◆ Prior owner debt without a reasonable chance of collecting (i.e. no payment plan or active garnishment).
- ◆ Any total change in the “allowance” per the accounts receivable report will result in a bad debt adjustment for the year.

3.9. TITLE REQUESTS AND TRANSFER FEES

1. Title company requests for HOA balances and confirmation of assessments are received and processed by office staff within 3 business days. Requests may be rushed (within 24 hours) upon request and availability.
2. When a request is received, the TOPS account is updated to reflect the pending resale with applicable data and \$50 charge applied. Photos are added to the property account from the listing. General Manager or Compliance Coordinator conducts a file/property review to identify any potential issues and notes it accordingly. A letter is sent to the title company showing any issues and balances owed.
3. Upon receipt of warranty deed, a transfer fee of \$400 is applied by office staff. New owner information is entered and processed accordingly. Prior owner documents are removed from files.

4. YEAR END PROCESSING

4.1. ANNUAL AUDIT

1. Each year, the Board reviews the engagement letter proposed by a specialized third party CPA firm chosen by the committee to conduct the annual audit.
2. Management prepares for the annual audit by ensuring that all accounts are reconciled, posting has been made of all known invoices and payments, and making known adjusting journal entries by the middle of January.
3. Once in-house preparation is complete, auditor conducts audit, with management and staff addressing any concerns or questions raised and assists as requested.
4. Auditors compile any additional year end entries (including the final fund/equity adjusting journal entries) and provide draft report. Manager ensures that entries are made accordingly, in-house accounting reports match audit reports, and reviews draft report with Auditor.
5. Once draft has been reviewed, adjusting journal entries recorded, and all questions and concerns resolved, the final report is generated by the auditor and delivered to the Board and made available to property owners.

4.2. YEAR-END ADJUSTING JOURNAL ENTRIES

1. The following is a list of standard yearend adjusting journal entries made by General Manager or bookkeeper at the direction of the GM (full documentation delivered to auditor):
 - ◆ Accrual adjustments for payroll, insurance, credit card liabilities, and other known expenses are posted to respective accounts.

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- ◆ Allowance for doubtful accounts is reviewed and adjusted accordingly.
 - ◆ Depreciation/amortization is reviewed and entries are made accordingly using straight-line method (see capitalization policy for assets that are depreciated/amortized).
 - ◆ Any other reclassifications needed to non-cash accounts
2. To complete the audit, auditor recommends fund closing entries and adjustments as needed.

4.3. YEAREND GENERAL LEDGER CLOSING

1. Yearend general ledger closing is done once in-house entries are made in order to generate draft reports for the Board.
2. Once adjustments are proposed, GM reopens the year, directs the entries to be completed, and recloses the year.
3. Budget for the subsequent year is entered as soon as possible.

4.4. TAX FILING

1. Annual federal and state corporate tax returns are filed by the association's audit firm.
2. BBVCC historically files an 1120-H due and subsequently has limited tax liability. To retain the ability to file the 1120-H and to continue to have limited tax liability, non-business related income must not exceed 10% of the overall operating expenses for the year. In 2018, sufficient interest revenue was realized warranting a change in tax filing, resulting in a tax liability.

4.5. PERSONAL PROPERTY RETURN

1. The State of Washington personal property return is compiled by the General Manager, with the help of Maintenance and Office staff and filed no later than March 1 of each year.

5. FINANCIAL REPORTING

5.1. BALANCE SHEET

1. System generated balance sheets using Fund Accounting principles are prepared monthly reflecting Operating Fund, and Reserve Funds.
2. Balancing Adjusting Journal Entries are often necessary, specifically for transactions that default to the operating fund but affect the reserve expenses. These are done by the bookkeeper when posting expenses with review of documentation by General Manager (i.e. entries to the Due to/Due from accounts).
3. Other accrual entries such as paid time off, payroll related liabilities, and other expenses may also be necessary.

5.2. INCOME STATEMENT

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1. System generated report of revenue and expenses is prepared monthly reflecting a summary of all financial activity.

5.3. ACCOUNTS RECEIVABLE REPORTING

1. Aged Owner Balance report is generated for the Board President and Treasurer monthly.

5.4. RECONCILIATION REPORT

1. Reconciliation report (see Reconciliation section) is maintained by bookkeeper attached to all association original bank statements in binder for Treasurer access & included in the Board Financial packet.
2. All bank reconciliations are to be reviewed and initialed by the General Manager.
3. No changes/backdating of transactions are to be posted once the reconciliation is approved. If a transaction is missed for some extraordinary reason, a new reconciliation needs to be printed and re-review by GM.

5.5. VARIANCE/PROJECTION REPORTING

1. Upon request, the General Manager will generate a projection report reviewing all income/expense line items for presentation to the Board. Variances are identified and discussed.

5.6. SCHEDULE FOR DISTRIBUTION

1. All reconciliations must be completed within the first 3 business days of the month.
2. Financial reports shall be reviewed no later than the second Tuesday of the month (day prior to Board Workshop).
3. The Board President and Board Treasurer will review the following reports monthly:
 - ◆ Monthly balance sheet
 - ◆ Income statement reflecting budget & actual
 - ◆ Accounts Receivable report
 - ◆ Reconciliation reports
 - ◆ Bank Statements
 - ◆ Copies of all invoices not uploaded to AvidExchange
 - ◆ Check register (including voided checks), sorted in sequential order
4. If requested (or during the budget process), the projection report is prepared for the Board.
5. On a quarterly basis, a quarter end packet is submitted & reviewed by the entire Board at the Board Workshop.

6. BANKING MANAGEMENT

6.1. SIGNATORY AND AUTHORITIES

1. All operating accounts held by the association have three signatories – General Manager, Board President (or designee), and Board Treasurer.

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2. Signature cards are updated immediately in the event of an emergency change. For board officer changes, these are updated as soon as the replacement officer has been designated.

6.2. TRANSFER MANAGEMENT

1. The online transfer of money between accounts within a single financial institution is conducted by the General Manager, with documentation filed and transaction posted to the Accounting system by the Bookkeeper.
2. For transfers between financial institutions, such as transfers between reserve funds and operating funds, require Board Treasurer and Board President approval.

6.3. RECONCILIATION

1. Bookkeeper reconciles bank statements upon receipt, no later than the 5th business day of the month.
2. General Manager reviews and initials all reconciliation reports.
3. After review by General Manager, all reconciliation reports and bank statements are stored in Bank Statement Binder for Treasurer access and monthly review.

6.4. BANK STATEMENTS/ONLINE ACCESS TO ACCOUNTS

1. General Manager, Treasurer, and President all have online access to bank accounts to review activity and view original bank statements. Bookkeeper also has non-admin level access to Alliance accounts to access statements and research transactions.

6.5. INVESTMENT POLICY

1. See Investment Policy Resolution for more details.

7. BUDGET PROCESS

1. The General Manager begins the budget process in August preparing a draft income/expense budget for operating expenses only. General Manager reviews all association expenditures individually with consideration of historical performance.
2. General Manager presents initial operating budget to Board during a Special Budget Meeting in late August/early September for preliminary analysis and discussion.
3. Committees submit project requests for consideration by this Budget meeting. Committee representatives are required to attend this meeting.
4. Subsequent budget meetings may be called if necessary.
5. At the September Board Meeting, the final updated draft for both operations and reserves is approved by the Board.
6. The approved budget and tentative fee schedule is then distributed to the Owners of BBVCC with a notice of budget meeting (first Friday in November), giving Owners an opportunity to reject the approved budget.
7. Should the majority of Owners vote to reject the Budget, the Board will convene a special meeting to consider alternate revenue sources (user fees) and/or make changes to the budget to be able to meet the prior year assessment level.

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8. Fee schedule must be approved at the November Board Meeting.
9. Invoices for the upcoming fiscal year are to be sent by the first week of December.

7.1. BUDGET ENTRY

1. Final Board approved budget is allocated by month in as close approximation to when expense/income is expected as possible.
2. In the event additional expense or income line items are needed to segregate general ledger accounts for further clarification, General Manager will allocate accordingly. If the allocations and/or reallocations affect the financial reporting, General Manager will get approval from Board prior to reallocation is made.

8. INTERNAL CONTROLS

8.1. MAIL

1. All mail, including invoices, is opened by admin staff (nonbookkeeper) and date stamped daily.
2. Invoices are scanned/emailed to Avid Exchange upon receipt. Legal documents and other management appropriate items are given to manager for initials/approval.

8.2. TRANSACTIONS AFFECTING BANK ACCOUNTS

1. All transactions affecting bank accounts are posted to accounting system by bookkeeper with supporting documentation reviewed (initialed) by General Manager.
2. Initialed documentation and journal entry transaction report are filed by bookkeeper in a secured desk drawer which is accessible by General Manager, Treasurer, Board of Directors, and Accountant.

8.3. ADJUSTING JOURNAL ENTRIES

1. Adjusting journal entries, for the purpose of this document, are reclassifications in non-cash accounts that are necessary to generate accurate and transparent financial reports.
2. General Manager or bookkeeper at the direction of the General Manager may generate these entries. In situations where bookkeeper discovers a misclassification, the entry is reviewed/ initialed by General Manager.
3. All adjusting journal entries are documented and filed by bookkeeper in a secured desk drawer which is accessible by General Manager, Treasurer, Board of Directors, and Accountant.

8.4. PAYROLL

1. General Manager conducts initial approval of timesheets, as explained in Payroll section.
2. Once approved, bookkeeper performs a verification calculation of times and posts payroll into processing system

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3. Manager reviews and verifies payroll processed matches approved time sheet report before authorizing payment.
4. Upon receipt of payroll reports from processing company, bookkeeper makes journal entries and files all documentation in locked payroll cabinet.
5. General Manager authorizes pay rate changes and bonuses for all staff in writing. For General Manager pay rate changes or bonuses, Board President submits written authorization.
6. Payroll records shall only be accessed by General Manager, bookkeeper, Board Treasurer, Board President, and accountant.

8.5. TREASURER/PRESIDENT REVIEW

1. In addition to the standard financial reports delivered, Treasurer and President may access all accounting related documentation.
2. As signatory, Treasurer and President may contact banking institutions directly to review any and all financial documents. Additionally, both Officers are also authorized to contact the auditor as needed.

8.6. DUAL SIGNATURE REQUIREMENTS

1. All checks require dual signatures. Checks should be signed by two Board Members (President and Treasurer), although the General Manager may sign as one if absolutely necessary.

8.7. CASH PROCESSING

1. Cash received in the office that cannot be immediately deposited locally or is in a small amount will be posted and kept in undeposited funds account.
2. While cash is discouraged, any cash transaction must have a receipt associated and given to the homeowner.

8.8. PETTY CASH

1. Petty cash is not to exceed \$100 and is kept in locked cabinet at all times.
2. Petty cash account is reconciled at least monthly.

8.9. PROCUREMENT/COMPETITIVE BID POLICY

1. See policy

9. RESERVE FUND MANAGEMENT

9.1. RESERVE STUDIES/UPDATES

1. Every three years, BBVCC will contract with a third party Reserve Specialist to conduct an onsite reserve study and make projection updates as necessary.
2. By the first budget meeting, General Manager will update the reserve study to reflect known changes/additions to the current projection to ensure adequate funding relative to the forecasted requirements.
3. Reserve studies are reviewed by the Board during the annual budget process.

9.2. *RESERVE FUNDING METHOD*

1. BBVCC utilizes a threshold funding approach per the recommendation of the Reserve Specialist & approved by the Board.

10. DEPRECIATION/AMORTIZATION

10.1. *CAPITALIZATION POLICY*

1. Capital purchases greater than \$5,000 with a useful life of longer than one year are depreciated/amortized utilizing straight line method. Depreciation is captured during year end processing.

11. FINANCIAL DATA PROTECTION

11.1. *PASSWORD POLICY*

1. In general, computer passwords should be a combination of letters and numbers that are not difficult to guess, yet are able to be remembered easily.
2. The following passwords need to be changed the beginning of every quarter and change of employee:
 - ◆ Email password
 - ◆ PC login password
 - ◆ TOPS password
 - ◆ Banking passwords
 - ◆ Password document
 - ◆ Wi-Fi
 - ◆ Payroll website
 - ◆ Any other website that hosts information that could lead to a “withdrawal” of funds (auto pay, etc)
3. At least annually (annual meeting time), we will review our password list and update each of the remaining passwords. (done by bookkeeper)
4. Other password changes are the responsibility of each employee

11.2. *ANTIVIRUS*

1. Antivirus on all Association computer systems must remain current at all times. This is maintained by third party contracted IT service.

11.3. *DATA BACKUP*

1. BBVCC utilizes two back up processes
 - ◆ PCs – all PCs are backed up via automated 3rd party IT services.
 - ◆ Data Server – backed up via automated 3rd party IT services.