

HEATHER GARDENS BUDGET and FINANCE

Joint Procedure Memorandum JPM B-1

This Heather Gardens Budget and Finance (B&F) Joint Procedure Memorandum B-1 is updated effective April 20, 2023.

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I. BACKGROUND

A. Management Agreement

Heather Gardens Association (Association) and the Heather Gardens Metropolitan District (District) signed an interagency agreement, known as the Management Agreement, whereby the Association serves as the agent for the District in carrying out District programs, such as managing the District finances and operating the golf program, restaurant, clubhouse, and other activities following District Board of Directors policies. The Management Agreement provides for shared advisory committees. As such, the Association and the District agree to have the Budget and Finance (B&F) Committee serve as a shared committee as defined in this Procedure Memorandum to provide advice to each Board, as appropriate, on budgeting and financial functions. The Management Agreement puts forth the authority of both the Association and District relative to the ongoing operations, including the Joint Budget and Finance Committee. It also includes an explanation of the reason for the establishment of the Management Agreement.

B. Common Words

This Procedure Memorandum (PM) contains a list of common words and terms used in accounting and finance. The definition of these words and terms are located in Article XI of this PM.

C. Management

Management is the Chief Executive Officer (CEO) or whomever the CEO designates for a given responsibility.

D. Scope

A single Budget and Finance Committee exists to serve in an advisory role to both the Association and the District with the following key functions:

1. Review and revise the Management recommended operating and capital reserve budgets, for submission to the Association and District Boards;
2. Recommend the Association's homeowners association dues which include a Recreation Fee for the District to finance the respective budgets;
3. Review monthly operating analysis prepared by Management. Consider operational changes that might be advisable and make recommendations as appropriate to the Boards;

4. Exercise various responsibilities related to the investment of Association funds which are discussed further in Article VI Investment Procedures and Article VII Banking Procedures. Meet regularly with investment advisors and review Management prepared cash flow expectations. Recommend investment strategies to the Boards that comply with the Association and District policies and which are expected to deliver the desired results;
5. Analyze and recommend the Association and District business insurance programs. Taking care to consider the significance of the HG's insurance program noting the significant risks being insured against and costs to the Association, District and our residents;
6. Prepare, update and recommend the Association and District capital projects financing plans;
7. Review and make recommendations regarding all unbudgeted capital projects over \$5,000 and budgeted capital projects over \$20,000 as well as operating expenditures over \$20,000 with respect to budget expenditures and other possible funding options;
8. Review the internal audits reports of checks paid, ACH payments, petty cash, inventory, and internal controls;
9. In collaboration with the Association management, oversee the conduct of the annual external audits of the Association and District financial records for each fiscal year and recommend acceptance or rejection of the audit reports to the Association and District Boards of Directors; and
10. Conduct other duties as assigned by the Association Board and the District Board.

II. BUDGET and FINANCE COMMITTEE STRUCTURE and PURPOSE

A. Membership

The Budget and Finance (B&F) Committee membership is intended to consist of the Association Treasurer, the District Treasurer, and four to seven other resident members/resident electors. The Association Chief Executive Officer, Chief Financial Officer, and other staff assist and advise the B&F Committee membership.

B. Treasurers' Roles

The Association Treasurer and District Treasurer serve as co-chairs. When Association issues are discussed, the Association Treasurer chairs the committee, and the District Treasurer does not vote. The Association Treasurer carries Association recommendations directly to the Association Board of Directors. When District issues are discussed, the District Treasurer chairs the committee, and the Association Treasurer does not vote. The District Treasurer carries District recommendations

directly to the District Board of Directors. Both Treasurers, as members of the committee, are encouraged to provide input on issues before the committee. The Association Board has delegated to the Association Treasurer the responsibility of executing approved investment transactions. In the absence of the Association Treasurer, it is expected that the Association Board President or Vice President or other members of the Board or the Budget and Finance Committee, as approved by the Board, will complete the duties of the Association Treasurer, See Section VI.

C. Subcommittees

Three permanent subcommittees have been created to aid in the B&F Committee's responsibilities. The Capital Program Subcommittee carries out the capital financing program functions as defined below and detailed in B&F Joint Procedure Memorandum B-2. The Internal Audit Subcommittee carries out the internal audit functions as defined below and detailed in B&F Joint Procedure Memorandum B-3. The Insurance Subcommittee carries out the business insurance functions as defined below and detailed in B&F Joint Procedure Memorandum B-4.

D. Ad Hoc Committees

The B&F Committee may create Ad Hoc Committees, as needed and with the approval of the Board(s), to perform its duties and advise the Association and the District Boards of Directors. When an Ad Hoc Committee is created, it will be given a task, membership, and short-term duration to complete its task and report back to the B&F Committee. The Board(s) can disband the Ad Hoc Committee at any time.

III. BUDGET PREPARATION PROCEDURES

A. Budget Initiation

Budget preparation begins with input from the Association and District Standing Committees, Department Managers, and Chief Executive Officer. Such committees and managers should take care to include the desires of our residents and unit owners relative to programs and operations. They should also reflect Management's plans for increased operational efficiencies. The impacts of inflation should be carefully analyzed. Management is responsible for the preparation of the budget.

B. Budget Schedule

The first action will be the preparation by Management of a Budget Schedule, such as the one shown in Attachment 5. Such schedule shall comply with Colorado requirements for homeowners associations that apply to the Association and Colorado

laws that apply to the District. Further, such schedule shall meet the requirements of the Bylaws of both the Association and District.

C. Management's Budgets

1. Based on input from the Association and District Standing Committees and department managers, Management prepares the Association and District budgets drafts for Operations and Capital Projects and contributions to capital reserves. The budgets will contain three separate years. The first year will contain the full details for the proposed year and prior years.
2. Materiality is paramount in the budget process. This means that the items of greatest materiality and those items which change the most from previous levels should receive the most attention.
3. Unless the B&F Committee agrees otherwise, Management's Budget(s) for both the Association and District will start with a concise Executive Summary containing information of most significance in the current budget. This summary will then be followed by sections covering the various activities. Management's Association Budget will have the following sections for:
 - a. Budget Preparation Assumptions
 - b. General Revenue
 - c. General Expenses
 - d. Custodial Department
 - e. Contracts Department
 - f. Maintenance Department
 - g. Administrative Department
 - h. Paint Department
 - i. Roads & Grounds Department
 - j. Security Department
 - k. Capital Program Projects
 - l. Capital Program Deposits
 - m. Owners Dues including Gas and Electricity
 - n. Owners Dues excluding Gas and Electricity
 - o. Summary (if the executive summary suffices, this summary may be omitted)
4. Management's District Budget will start with an Executive Summary and have sections for:
 - a. Budget Preparation Assumptions
 - b. Enterprise Revenue (including the Recreation Fee)
 - c. Enterprise Expenses
 - d. Restricted Funds
 1. Conservation Trust Fund
 2. Debt Service Fund

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3. Foundation Fund
 - e. Enterprise Programs
 1. Golf Course
 2. Restaurant
 3. Clubhouse
 - f. Summary (if the Executive Summary suffices, this summary may be omitted)
5. Management's Association and District Budgets will be presented by Cost Center accounting codes. Each Cost Center will have an Expense Summary as well as separate summary for Wages/Benefits and Operating Expenses. Also, see prior budget submissions for further guidance as to expenditure codes needing additional detail.
6. Staffing levels and personnel costs are to be carefully analyzed for all areas. In doing such analysis, care should be taken to maintain the confidential nature of individuals' compensation and other personal information of all employees. As a part of the budget package, Management shall provide additional information regarding employment numbers. Additional information, as needed, is to be provided for all years shown including the following:
- a. Number of FTE for full time staffing positions
 - b. Number of hours for part-time staffing positions
 - c. Number of overtime hours
 - d. Number of hours for teachers
7. Management's budgets will contain written justification for changes in staffing and descriptions of the key changes from the previous budgets. This should cover not only increases in staffing but also possible reductions in staffing resulting from technology and changes in internal procedures which permit such reductions. Proposed staffing changes should be accompanied by a revised organization chart.
8. Management's budget will include the status of current year capital project completion with details on potential carryover projects and why they are not expected to be completed in the current year.

D. B&F Committee Recommended Budgets

1. B&F Committee

The B&F Committee reviews in detail the draft of Management's budgets and addresses all questions raised. For this review, the B&F Committee invites the members of the Association and District Boards and the Association membership and District voters to these work sessions. Be sure that all communications make it clear to our members that their input is desired, and that the budget will be

changed if appropriate. The review dates are identified in the Association/District approved annual Budget Schedule.

2. To the greatest extent possible, agendas should be prepared and disseminated for each budget review meeting. This will enable members to determine which portion of the meetings they would most like to attend.

3. Submission

Management will prepare the Committee recommended Association and District budgets incorporating all changes recommended by the B&F Committee. The Committee budgets will be distributed according to the approved annual Budget Schedule.

E. Boards Review

1. The Association Board review date is identified in the approved annual Budget Schedule unless the Association President directs otherwise. The Association Board will review the B&F Committee budgets for the Association and the District and will make a recommendation to the District Board concerning its budget. This meeting serves as a public review meeting for the Association Board to receive comments from the Association Membership before Association budget approval.
2. The District review date is identified in the approved annual Budget Schedule unless the District President directs otherwise. This meeting will serve as a public hearing for the Board to receive comments.
3. Association and District Boards are scheduled to approve their respective budgets at their special meetings as reflected in the Budget Schedule.

F. Publication of Budgets and Dues Schedules

1. Prepare Association and District budget summaries and mail them to the Association membership and the District voters prior to the Association budget membership meeting based on the approved annual budget schedule.
2. Prepare the approved budget and mail Association Dues schedules and payment coupons to Owners in December. Letters with Association Dues information will be mailed to Owners who have authorized the Association to automatically withdraw their monthly Dues.
3. Upload copies of the Association and District Budget to the Association website.
4. Provide notices on PILERA (Heather Gardens Communication) and through the ARO as well as means deemed appropriate based on the approved annual Budget Schedule. Such notices shall announce the publication of the Association

and District budgets and describing how to obtain access to the budgets online or obtain a copy.

IV. BUDGET ADMINISTRATIVE PROCEDURES

A. Overall Prudence.

Inclusion of an expense in the approved budget does not mean the expense must be made.

B. Monitoring. The B&F Committee monitors a broad range of budget-related information at its monthly meetings. The Committee and Management may suggest more abbreviated reviews for areas of lesser materiality or of little variance from the budget.

a. For these meetings, Management shall provide the following reports unless the B&F Committee agrees otherwise:

- 1) Association Balance Sheet
- 2) Association Revenue Expense Statement
- 3) Association Monthly Operating Analysis
- 4) Association Budget Exception Report
- 5) Association Capital Program Report
- 6) Association Investment Listing
- 7) Association department expenses
- 8) District Balance Sheet
- 9) District Profit and Loss Statement
- 10) District Capital Assigned Fund Report
- 11) District Profit and Loss – Restricted Fund
- 12) District Profit and Loss – Enterprise Fund
- 13) District Budget Exceptions Report
- 14) District Investment Listing
- 15) District Golf Profit and Loss Report
- 16) District Restaurant Profit and Loss Report
- 17) District Clubhouse Profit and Loss Report
- 18) District Golf Usage Report
- 19) District Conservation Trust Report
- 20) District Foundation Fund Report
- 21) Any special reports requested by the B&F

b. For the April, July, October, and January meetings, Management shall provide a Quarterly Staffing and Work Completion Status Report.

- c. The reports will be distributed to the Association and District Presidents, Board members, and all B&F members, for their review six days, if possible, prior to the B&F meeting
- d. Management reviews with the B&F Committee the contents of these reports and explains significant variances. Management answers committee member's questions.
- e. The Association Treasurer presents pertinent budget information to the Association Board.
- f. The District Treasurer presents pertinent budget information to the District Board.
- g. PM B-3 describes monitoring procedures carried out by the B&F Committee's Audit Subcommittee.

C. Operations Expense Approval

- a. Non budgeted operating expenditures under \$20,000 are administered by the Chief Executive Officer based upon the staff spending authority schedule approved by the Association Board.
- b. Certain recurring operating expenses will be paid automatically through the bank (ACH Payment). An ACH authorization form is required prior to the initial setup with the bank (see Attachment 1). Listed below are some examples of ACH payments:
 - 1) **Payroll:** Payroll is processed every two (2) weeks to pay the employees, taxes, garnishments, fees, and 401K.
 - 2) **Tax Payments:** Quarterly estimated corporate income taxes are provided by tax accountants. These taxes are paid to the IRS and Colorado Department of Revenue.
 - 3) **Employee mileage and other employee reimbursements:** A monthly mileage reimbursement is paid to employees. Employee who has purchased supplies or paid for work-related travel expenses will be reimbursed upon submission of required support.
 - 4) **Lease:** Leases include (but are not limited to) copier/printer, postage equipment, and fitness equipment.
 - 5) **Utilities:** Examples include trash, internet, telephone, electricity, natural gas, and water.

- 6) Reimbursements:** Any person entitled to a reimbursement and who has Direct Debit may be paid by an ACH.
- c. All non-budgeted operating expenditures over \$20,000 must be initiated using the Request for Expenditure (RE) Attachment 3. All such expenditures will be subject to the RFP, bid and approval procedures, as outlined in Section V below.
 - d. Recurring Expenses. Management is authorized to approve certain recurring expenses that exceed the Chief Executive Officer's \$20,000 spending authority, such as, but not limited to, gas, electricity, water and sewer charges, the refilling of gasoline storage tanks and payroll and income taxes.
 - e. New or renegotiated contracts shall be reviewed by the B&F Committee and Boards within timeframes available for the specific item being considered. Management shall provide advanced notice of the required timeframes as much in advance as possible to allow for meaningful reviews by the Committees and Boards. Example of these items include contracts for Professional Employee Organization (PEO), trash service, gas pricing and insurance. Given the nature and complexity of some of these contracts it may be necessary for either special meetings or work sessions to be called.

V. CAPITAL EXPENDITURES

A. Responsibilities

1. Management

- a. Plan and implement actions necessary to originate a project, obtain fund expenditure authorization, and follow the project to successful completion.
- b. Develops contract specifications and requirements, including General Conditions, Scope of Work, and Technical Specifications.
- c. Develops Request for Proposals (RFP).
- d. Solicit contractors for bids on proposals.
- e. Prepare Request for Expenditure (RE) form providing the project justification for projects requiring an RE as outlined below. The project justification should include, but not be limited to:

(1) Title: Something not too long, in most cases one full line or less

(2) Description of the project or issue that needs action

- a. Background and what has already been tried
- b. Related Issues — both positive and negative — to cover the merits and faults
- c. Conclusions

(3) Justification

- a. Why action needed:
 - i. Budget project amount is not sufficient.
 - ii. New information on health and safety concerns, compliance with laws and regulations, and essential replacement.
 - iii. Desirable service or improvement in efficiency with reasonable payback.
 - iv. Clear improvement in standards of living or community amenity.
- b. Supporting documentation
- c. Cost Estimate with appropriate detail
- d. Funding options

(4) Proposal

- a. Statement of the requested action
- b. Define who will do what (department, consultant, etc.)
- c. Cost summary and source of funds requested [such as budgeted project, unanticipated item, insurance, other (to be defined)]
- d. Schedule with the completion date
- e. If this takes Association or District Board action, add a proposal summary in motion form for review and action by related committees and the Board.

f. REs for projects are to be submitted for approval if any of the following apply:

- a. The project is not budgeted.
- b. The project is projected to be over budget.
- c. The scope of the project has materially changed since the budgeting process, or there have been material changes to the project.
- d. The Board(s) has/have requested that an RE for a specific project be submitted for review.
- e. Management has chosen to submit a project for review and approval even though it may not be required.

All other projects will be submitted to the appropriate committees and board(s) on an advisory basis using a Reserve Expenditure Advisory Form (Attachment 4).

- g. Enter all capital property into appropriate replacement and depreciation schedules. Inventory is to be valued at acquisition cost.
- h. Report to the respective Board and the Budget and Finance Committee at their monthly meetings on the progress of scheduled capital projects.

2. Standing Committees (except B&F)

Review the projects submitted by Management including the purpose and scope, the bids submitted, the justification and any ancillary materials included with the RE. Such review should assess if the project, bids and vendors have been adequately vetted by Management. Funding is not a factor to be considered at the Standing Committee level. Concurrence or non-concurrence with a proposed project should be acknowledged by the committee chair on the RE and forwarded to the B&F Committee.

3. Budget and Finance Committee

- a. Review RCs received from Standing Committee chairs since the last meeting. Review the requests with respect to funding to include budgeted amounts and if needed other possible funding sources (eg. reserves or reallocation of funds).
 - b. Forward to the appropriate Board all REs received since the last monthly meeting, indicating the Committee's concurrence or non-concurrence.
4. Board(s) are to review the recommendations of the standing committees as well as the B&F Committee and the compatibility of the project with other Association and District objectives. After review the Board(s) shall take appropriate action.

B. Contracting Procedures

- 1. When applicable, Management will develop and distribute written Request for Proposal (RFP) to contractors/vendors for a single project that is budgeted to cost more than \$20,000. The RFP may cover more than one year.
- 2. All RFPs will include general conditions, specifications, scope of work, technical Specifications, and bid requirements. Development of RFPs may make use of outside resources such as experienced vendors and consultants.
- 3. Bid Requirements:

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- a. For projects less than \$20,000, when possible, two bids are required, and can be received via mail or email.
 - b. For projects of \$20,000 or more, when possible, a minimum of three bids are required, and can be received via mail or email.
 - c. In the event that the minimum bid numbers are not met, Management will provide an explanation for the cause of the lower number.
 - d. The Board(s) may waive the minimum bid requirement for certain projects either prior to the bidding process or after the process has taken place.
 - e. When possible all bids shall be comparable with the same type and capability of equipment, same quantities, similar accessories, similar configurations, similar specifications etc.
 - f. If bids do not meet general comparability standards Management shall provide an explanation of the reason for the differences.
 - g. It is generally accepted that in reviewing bids, many times much more than just "costs" should be considered. Some of the other factors that may come into consideration when reviewing bids and vendors are, but not limited to:
 - 1) Outside references and reviews
 - 2) HG experience with the vendor (positive and negative)
 - 3) Professional certification
 - 4) Management's general assessment of the vendor
4. Special requirements for the procurement of goods, projects, or services for the District:
- When goods, projects or services for HGMD are reasonably expected to cost \$60,000 or more the following requirements should be met:
- a. Advertise in a local newspaper with wide distribution an invitation to prospective bidders that the District will be obtaining bids on for goods, projects or services described as (include a brief description). Interested bidders should contact (name, address, phone number) for additional information by (date).
 - b. When actual bids for the goods or services are sought an advertisement must be placed in a local newspaper showing a description of the goods, projects or services, the date and time bids are due, to whom the bids should be sent, the date and time of public opening of the bids.
 - c. Construction project requirements are numerous, and the District attorney should be contracted for specifics.
5. All REs under-\$20,000 for items included in the approved budget shall be routed to the Chief Executive Officer for approval.

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6. All other REs, except those made for emergencies (see section below), and those not required to be submitted for approval will be submitted for review and approval in the following sequence:
 - a. Department Managers
 - b. Contract Manager, if necessary
 - c. Chief Financial Officer
 - d. Chief Executive Officer
 - e. Standing Committee Chair
 - f. B&F Committee Chair
 - g. Association President or District President, whichever is applicable

 7. If emergencies occur:
 - a. Management takes the initial action required to determine the nature and extent of the problem and the means of correcting it.

 - b. In accordance with the normal emergency purchasing procedures, Management obtains a Purchase Order (PO) from the security officer on duty, completes it and:
 - (1) Uses the PO to acquire item or items necessary to effect emergency repair or replacement of facility or equipment.

 - (2) If the amount of purchase is \$7,500 or more, obtain verbal approval of either the Chief Executive Officer, or if not available, the Chief Financial Officer, or the appropriate Board President.

 - (3) Clearly defines the nature of the emergency, as well as actions taken to correct the problem, either on a PO or as an attachment.

 - c. On the next workday, Management takes action necessary to obtain approvals appropriate to the emergency.

 8. Change orders may be approved by Management if:
 - a. Amount of change order is within Management's approval authority and

 - b. Total of project cost, including the change order, does not exceed the previously approved budget amount and

 - c. Identification of the change order amount, justification, and description of the scope are included in the next report to the B&F Committee, and the status of the project is reported to the Board.

- d. Change orders which do not fit the above three criteria must be approved by the appropriate reviewing authorities using an RC.

C. Capital Projects Carry Forward to the Next Year

Generally, capital projects are expected to be completed during the fiscal year in which funds were appropriated for the project(s).

When a project is not anticipated to be completed by the end of the fiscal year, Management will immediately, but no later than the January meeting of the Budget and Finance Committee, identify in writing, the project including the dollar amount needed to complete the project, and provide a written explanation of the circumstances that caused the project to be incomplete.

The B&F Committee will recommend appropriate action on such Capital projects.

VI. INVESTMENT PROCEDURES

The process for making investments on behalf of the Association involves several participants and steps. The following provides a brief summary of the process and is followed by more detailed descriptions of the responsibilities of those involved in the process.

The investment procedure for the Association is summarized as follows:

- Assess the Association's expected future cash flows to determine what funds are expected to be needed at what points in time.
- Working with a qualified investment advisor or advisors, develop an investment strategy that complies with the Association's adopted investment policy.
- Determine appropriate investment vehicles that are consistent with the investment strategy.
- Follow appropriate safekeeping, record-keeping, and reporting procedures.

The Association investment policy places basic responsibility for developing the investment strategy, selecting appropriate investment vehicles, and monitoring the success of the program with the Budget and Finance Committee ("Committee"). The Committee will develop and make recommendations to the Association Board of Directors ("Board") for final approval. The following summarizes the responsibilities of the Committee and other key participants in the process.

A. Budget and Finance Committee:

1. Define investment advisor candidate evaluation criteria.
2. Prepare Request for Proposal, including the scope of services requested and send a list of prospective candidates.
3. Review and evaluate proposals and select candidates for interviews.
4. Conduct interviews with candidates; review with them the adopted investment policy as well as qualifications and desired compensation of the candidates
5. Recommend investment advisory candidate(s) to the Board.
6. In consultation with the Association's legal counsel, review and recommend a contract with the selected financial advisor(s) for execution by the Board.
7. Working with a financial advisor and with a comprehensive cash flow projection for each fund source, develop and recommend the investment strategy to the Board.
8. Working with the financial advisor, recommend specific investment vehicles consistent with the approved investment strategy.
9. Monitor chosen investment vehicles and modify the investment strategy and or vehicles in accordance with performance and changes in economic climate.

B. Investment Advisor:

1. Research and develop suggestions, conforming with policy, for a draft investment strategy for review and discussion with the Committee.
2. Based on cash flow projections provided by Association management, recommend specific investment vehicles that will help accomplish the objectives of diversity and laddering set forth in the policy.
3. Monitor investment performance and provide regular reports to the Committee.

C. Association Management:

1. Prepare an annual cash flow projection for the Association for each fund source using current balances and expected inflows/outflows and present to the financial advisor and Committee.
2. Arrange movement of funds to the appropriate location/account for timely closings of investment transactions.
3. Reconcile investment records received from the custodian to accounting records and record income as realized, including amortization and/or accretion entries for any discounts or premiums.
4. Consult with the auditor to determine the most appropriate means of completing the compliance review of the Association’s investing activities with its policy.

D. Association Treasurer:

1. Present reports, recommendations, and other matters related to investing to the Board.
2. With the assistance of the advisor and management, execute Association Board-approved purchases and/or sales of investments for the Association. Keep accurate records of all completed transactions, Report such information to Management in settling the transactions.

E. Association Board of Directors:

1. Based on the recommendation of the Budget and Finance Committee, approve the selection of a financial advisor and contract.
2. Review and approve the Association’s investment strategy as recommended by the Committee, and the investments suggested to meet the strategic objectives.

VII. BANKING PROCEDURES

The volume of transactions conducted by the Association and the District in most months requires bank balances that may exceed the protection offered by the FDIC. Therefore, the following procedures apply.

- A. The Association and the District funds will be deposited only in banks that are large enough and strong enough to have satisfactory ratings from all three major rating

services. Standard & Poor, Moody, and Fitch. However, Certificates of Deposits in amounts equal to or less than the FDIC insurance maximum may be placed in any bank that offers FDIC insurance or in U. S. Government notes, bills or bonds.

- B. All District accounts must follow the requirements of the Public Deposit Protections Act (PDPA).
- C. Decisions as to changes in the Association's and the District's banking arrangements and selection of banks are the responsibility of the Boards of Directors, based upon recommendations of the B&F Committee.
- D. The B&F Committee will make banking recommendations to the Boards of Directors based upon information that contains, but is not limited to, the following criteria:
 - 1. Strength of the bank as shown by its rating as set forth by the various bank rating services.
 - 2. Service charges for such items as:
 - a. ACH Fees
 - b. Internet availability of monthly bank statements and related items
 - c. Deposits and electronic checks
 - d. General Account Maintenance
 - e. Online Banking
 - f. Investment Services
 - 3. Account earnings allowance rate.
- E. Management shall report any problems in dealings with the banks to the B&F Committee and the Boards.
- F. The Board Treasurers and Internal Audit Subcommittee Chair with Management will review the banking reconciliation statements.
- G. Refer to the Association Policy Manual (Finance – 1 Banking Policies) for information on banking authority assigned to Management and Board members. At least annually a resolution shall be presented to the Board(s) for approval naming all authorized signers on all bank accounts.

VIII. ANNUAL EXTERNAL AUDIT and TAX RETURN PREPARATION

A. Management

1. Work with the contracted Audit Firm to establish the process and schedule for each annual audit and for the preparation of the annual tax returns;
2. Provide appropriate workspace for the Audit Firm's staff to do their on-site work on the audit;
3. In a timely manner, provide copies of all requested documents and respond to all questions;
4. Review the initial draft of the audit reports in concert with the Audit Partner and Senior Manager to assure that all issues have been properly addressed and that changes requested by the Audit Firm make sense from the viewpoint of the Chief Financial Officer, Chief Executive Officer, and the appropriate Treasurer;
5. Make all adjusting entries and other final entries to the year-end financials as requested by the Auditor; and
6. Facilitate the posting of the completed Audit reports on the Heather Gardens website and make paper copies of the Audit report(s) for interested parties as requested.
7. In a timely manner, file the accepted Audit reports with the relevant State organizations and the completed tax returns with the taxing authorities.

B. Budget and Finance Committee

In collaboration with Association management, oversee the conduct of the annual external Audits of Association and District financial statements for each fiscal year and recommend acceptance of the audit reports to the Association and District Boards of Directors, including the following:

1. Monitor the status of the conduct of the Association and District Audits;
2. Receive and review the draft audit reports and provide feedback to the auditors;
3. Receive and review the parts of the Report on Governance, Internal Controls, Material Weaknesses Audit Management Letter that relate to financial policies and procedures and make appropriate recommendations for change to management and the Board (Note: Parts of the Management Letter that may result in a personnel action will not be presented to the Budget and Finance Committee, but will instead be presented by the Auditor in Executive Session to the appropriate Board of Directors.); and
4. Make a recommendation to each Board as to acceptance of the annual audit reports.
5. An important responsibility of the B&F Committee is to evaluate the external auditor's performance. This is done in order to recommend to the Boards, the appointment, re-appointment, and if required, the replacement or removal of the auditor. The B&F should solicit the input of management in performing this evaluation. The assessment should cover the professional competencies in conducting the audit and completing the tax returns, value added recommendations made by the auditor and client service issues. This process should be formalized by the B&F Committee and conducted annually.

C. Association and District Boards of Directors

1. Receive copies of the two completed Audit reports by the selected Audit Firm;
2. Based on recommendations from the Budget and Finance Committee, accepts the final Audit reports;
3. Receive copies of the Management Letter and act as appropriate on recommendations made by the Budget and Finance Committee and the Auditor; and
4. Assure that the accepted audit reports are filed with the relevant State organizations and posted on the Heather Gardens website for review by interested parties. A paper copy of one or both audit reports will be made available to interested parties upon request.
5. To provide the external auditor the opportunity to communicate privately and candidly with the Boards and members of the B&F Committee and similarly, to provide the Boards and B&F Committee with the opportunity for candid questioning of and private discussions with the external auditor. A portion of the exit interview will be held in an Executive session, including both Boards and the B&F Committee with the Audit Firm. The CEO and CFO should not be a part of this session.

D. Consideration for switching Auditors

Circumstances may arise that indicate a need for switching Auditing Firms. Switching auditors is not a simple and routine matter without consequences and should only be considered if a careful review of the facts indicates a need to do so. Rotating auditors just because other institutions do it or because the auditors give you professional advice you did not like does not necessarily raise to the level of constituting a need to engage different auditors.

Consequences of changing Audit Firms. The following article sets forth what to expect if a change is made.

What are the Consequences of Audit Firm Rotation?

With Audit Firm rotation, disruption with a capital "D" occurs and affects everything, often to the detriment of the nonprofit. A study of auditor tenure conducted by professors at the University of Richmond and Texas A&M international University concluded:

The results do not support the arguments of those who propose mandatory auditor rotation and suggest that contrary to the concerns of the SEC, there is an inverse relationship between auditor tenure and auditor reporting failures.

The AICPA opposes mandatory Audit Firm rotation, citing the often costly and unintended consequences that may result. Instead the AICPA recommends the

strengthening of audit committees and encourages them to be more proactive in their interactions with and supervision of the auditors.

How Do You Determine What's Best for Your Organization?

- Ensure independence and objectivity: Ask yourself whether your current firm adheres to and performs in accordance with auditing standards. In addition, all firms are subject to a peer review process every three years to ensure the process of independence and objectivity are followed. Ask your firm for its most recent report.
- Look for participation: Is your auditing firm anxious to meet with your audit committee to discuss procedures, help them understand objectivity and discuss any matters that have come to the auditor's attention? Passionate auditors are valuable to the success of your organization.
- Consider technology and communication preferences: Be sure to consider the technology tools and methods of communication your team is most comfortable with. Some nonprofits will continue to operate cautiously and conduct business digitally. Make sure your Audit Firm can perform audits remotely using innovative technology.

The arguments for rotation include:

- Audit objectivity: While there is not a standard for mandatory Audit Firm rotation, some believe it is necessary for audit independence.
- A "fresh look": Depending on organizational and environmental conditions, your audit may profit from a new perspective.
 - The antidote for this argument is to ask your Audit Firm to rotate the engagement team-partner and/or staff. This allows you to retain the expertise, industry knowledge, and service you're receiving from the incumbent firm while adding the "fresh look" component you might be seeking.

The arguments against rotation include:

- Increased costs: More costs may be incurred by the organization and its staff in the procurement process and initiation of a new firm. There may also be an increase in audit costs due to additional time spent in the first years of an audit relationship. Of note: The Government Accountability Office surveyed hundreds of companies and auditors about Audit Firm rotation and reached the general conclusion that rotation increases costs and has very little, if any, on the quality of audits.
- Decreased service levels: Some organizations notice the level of service they receive from their audit team declines as the relationships come to a close. This should not be the case, but it does happen occasionally and thus should be considered.

- Loss of existing organizational knowledge and relationships: Your Audit Firm likely has a good handle on your industry and your organization. Starting from scratch when it comes to building relationships and bringing a new firm up to speed can feel daunting.

Consider Level and Quality of Service

If you are not receiving the level and quality of service you expect, discuss the issues with your auditors. If they are no longer able to meet your standards, a change may be in order. But it's important to remember that change does not come without cost.

Here are six signs you may need a new Audit Firm:

- Your current firm is not keeping up with new regulations and standards.
- You are not being treated like a partner.
- You are worried your firm may be missing something important.
- Your Audit Firm is not quick to respond to your questions or concerns.
- Your auditors seem to lack experience.
- Your firm hits you with surprise bills.

IX. IMPOUND FUND

A. Background

1. Authority for the Impound Fund maintained by Heather Gardens Association (Association) was established in the original Declaration of Condominium and was retained in Article 6.7a of the current Amended and Restated Declaration of Condominium described in part as follows: "...collect from each owner at the time each owner purchases or acquires a unit a sum equal to six times the current estimated monthly common element expenses for the unit. Said sum may be used by the Association as working capital, or to apply against a delinquent account of an owner, and shall be refunded to the owner upon the sale or transfer of the unit less any amounts then due by said owner to the Association."
2. The funds received are deposited in and disbursed from the Association's Operating bank account. In the aggregate, the impound funds serve as an important element of working capital for the Association's operations.
3. Funds in the Impound Fund will be invested in accordance with the terms of the Investment Policy. See VI Investment Procedures.

X. BUDGET and FINANCE SUBCOMMITTEES

A. Capital Programs and Funding

Conducted by the Capital Program Subcommittee with details in JPM B-2 which include:

1. Monitoring the status of the Association and District capital programs and project status.
2. Guiding the preparation and annual updates of the Association and District Capital Project Financing Plans.
3. Recommending annual capital deposits into the Association and District capital program funds.

B. Internal Audit Program

Conducted by Audit Subcommittee with details in JPM B-3 which includes:

1. Overseeing the inventory of Association and District consumable and fixed assets.
2. Reviewing the previous month's paid invoices.
3. Randomly auditing petty cash and procedures in all departments.

C. Business Insurance Program

Conducted by the Insurance Subcommittee with details in JPM B-4 which includes:

1. Reviewing exposures to loss and all existing business insurance coverage.
2. Recommending whether to seek the services of a new broker as needed.
3. Recommending Association and District business insurance packages.

XI. BUDGETING and ACCOUNTING TERMS

Positions on the Association and District Board of Directors and associated committees are filled by volunteers. It is noted that Board members are elected from among those who volunteer. Committee members are appointed volunteers. Most of these volunteers have at least two characteristics in common:

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- a. Individually and/or collectively they are technically qualified for the positions they hold because of their extensive experience in industry, business, and/or government at federal, state, or local levels.
 - b. They have some familiarity with and recognize the importance of budgeting and accounting systems. Their knowledge level and experience may be with systems of several different types, and they may use terms and procedures, which, in some cases, vary significantly in application.

The purpose of this Section XI is to provide a glossary of terms and definitions as a means of enhancing understanding of the matters deliberated by the B&F Committee and minimizing misunderstanding in Heather Gardens' management activities.

When individuals participate in committee meetings and deliberations, they should strive to conform their comments to the definitions in this Section XI.

A. Accrual Basis of Accounting. Accrual accounting is a financial accounting method that allows an enterprise to record revenue before receiving payment for goods or services sold and record expenses as they are incurred regardless of when money exchanges hands.

1. Record revenue as it is earned, not as it is received.
2. Recognize and record purchases and expenses when the title or benefit and obligation of ownership changes hands from seller to buyer.
3. The percentage of completion method is a revenue recognition accounting concept that evaluates how to realize revenue periodically over a long-term project or contract. Revenue, expenses and gross profit are recognized for each period based on the percentage of work completed or costs incurred.
4. During the year, major expenses are accrued monthly. At year-end, all expenses for the year are accrued.

B. Depreciation and Accumulated Depreciation. Accumulated depreciation is the total amount of depreciation of a company's assets, while depreciation expense is the amount that has been depreciated for a single accounting period. Depreciation is an accounting entry that represents the reduction of an asset's cost over its useful life. In other words, depreciation spreads out the cost of an asset over the years, allocating how much of the asset that has been used up in a year, until the asset is obsolete or no longer in use. Without depreciation, a company would incur the entire cost of an asset in the year of purchase, which would negatively impact profitability. Put another way accumulated depreciation is the total amount of an assets' cost that has been allocated as depreciation expense since the asset was put into use.

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- C. **Audit.** The process of examining an organization's financial records to determine if they are accurate and in accordance with any applicable rules (including accepted accounting standards), regulations, and laws. External auditors (CPA firms) come from outside the organization to examine accounting and financial records and provide an independent opinion of these records.
- D. **Balance Sheet.** A financial statement that shows the financial position by summarizing the assets, liabilities, and equity at a specific date is prepared monthly by Management for the Association and the District. The annual reports are prepared annually by Management and published in the audited financial statements.
- E. **Capital Property.** Capital Property is that which has a useful life of more than one year and a cost in excess of \$5,000.
- F. **Capital Project.** Capital Project is a contracted project, usually a construction or major repair of a capital property item.
- G. **Capital Projects Financing Plan.** Thirty-year plan (updated annually) of major expenditures for facilities and equipment. The Plan should list all capital components for its entity, estimated life, and cost of replacement. The Capital Projects Financing Plan will be based on these estimated needs and adjusted annually to provide sufficient funds for current needs and to accumulate funds for future estimated needs while maintaining a stable annual assessment rate.
- H. **Capital Program Expenditures.** A cost incurred to acquire a long-lived asset. (See Capital Property and Capital Project above)
1. A reconditioning or major overhaul that will extend the useful life of an item beyond the original estimate is considered a capital reserve expenditure.
 2. Obsolescence can be a factor limiting the useful life of the item.
- I. **Capital Reserve Fund / Assigned Fund.** Association and District use this fund to account for financial resources to be used for the acquisition of facilities and equipment, construction, and/or significant maintenance of major capital facilities.
- J. **Carry Forward Appropriation / Expenditure.** Moneys not spent in the prior accounting period and carried forward to the next accounting period. This is usually in reference to capital program expenditures.
- K. **Impound Fund.** All Heather Gardens owners must contribute an amount equal to 6 months of the Current Common Expense Assessment when a unit is purchased. Association, as stated in the Declaration, may use these funds for working capital. Upon the owner selling a unit to another buyer, the Association will refund the original amount of impound back to the owner, assuming that there is no balance

due on the owner's account. This is important for two reasons. First, it provides a cushion to the Association against the possibility that the owner fails to meet its obligations. Second, in the aggregate, the impound funds serve as an important element of capitalizing the Association's operations and capital projects purchases.

- L. **Conservation Trust Fund.** District uses this fund to account for financial resources to be used for park and/or recreational improvements as a result of money obtained from the Colorado State Lottery.
- M. **Cost Principal.** Association's and District's policy of accounting for assets at their acquisition cost.
- N. **Debt Service Fund.** District uses this fund to account for the accumulation of resources for and the payment of long-term debts, principal, interest, and related costs as authorized by the District electors.
- O. **Enterprise Fund.** The operating fund of HMGD. It is used to account for all financial resources except those required to be accounted for in another fund. See Debt Service Fund, Assigned Fund Balance, Conservation Trust Fund, and Foundation Fund definitions.
- P. **Heather Gardens Foundation Fund.** District uses this fund to account for donations received by the District and how the donations are used.
- Q. **Inventory.** Supplies and goods on hand and available for use and sale by Association.
- S. **Monthly Operating Analysis (MOA).** A variance analysis of actual revenue and expense compared to the budget for the Association and District.
- T. **Operations Budget.** A plan or forecast for a future period expressed in quantitative terms. Intends to establish objectives, determine needed dues form members and aid in achieving these objectives with the resources available. Applies only to the day-to-day operations of the organization.
- U. **Pooled Cash and Interest.** Association and District each follow the practice of pooling cash and investments to maximize interest earnings. Association funds, as well as all capital program funds, are recorded separately. All District cash, except when required by a trust or other agreements, is deposited to and disbursed from a single bank account.

Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. By District Board action, all interest earned from the Debt Service Fund reduces the mill levy. See VI Investment Procedures for additional information.

V. Full-Time Equivalent (FTE). One position filled continuously for one year. FTE does not mean full-time employee.

XII. PREVIOUS JPMs

- A. PM B-1 Budget Preparation, Administration and Banking, dated September 9, 2014.
- B. PM B-2 Capital Expenditures dated April 11, 2017
- C. PM B-4 Budgeting and Accounting Terms unused in Heather Gardens dated September 9, 2014.



Jill Bacon, Association President



David Funk, District President

ATTACHMENT 1

<p>HEATHER GARDENS ASSOCIATION ACH PAYMENT AUTHORIZATION FORM</p>
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DATE: _____

VENDOR: _____

AMOUNT: _____ ACCOUNT CODE: _____
(Amount can be an estimate. If estimate, enter the highest amount.)

PAYMENT START DATE: _____ PAYMENT END DATE: _____
(If no end date, enter Perpetual.)

PAYMENT FREQUENCY: WEEKLY BI-WEEKLY MONTHLY QUARTERLY ANNUALLY

OTHER: _____

DESCRIPTION:

CHIEF FINANCIAL OFFICER

Date

CHIEF EXECUTIVE OFFICER

Date

CHECK SIGNING BOARD MEMBER

Date

ATTACHMENT 2

**HEATHER GARDENS ASSOCIATION & DISTRICT
REQUEST FOR CAPITAL EXPENDITURE**

PROJECT: _____

DEPT: _____

DATE: _____

BUDGET	Budget Amount:	\$	Contract Amount:	\$
Year:	Expended YTD:	\$ 0.00	Change Order Res.:	\$
Tab:	Unexpended Balance:	\$ 0.00	Total Project Cost:	\$
Page:			Add. Funds Requested:	

DESCRIPTION:

JUSTIFICATION: (Attach backup material as required)

BID COMPARISON: (If required, summarize, or attach separate schedule.)

RECOMMENDATION:

1. Dept. Head	2. CFO	3. CEO	4. Dept. Chair	5. B&F Committee	6.HGA or HGMD President
<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur <input type="checkbox"/> Concur with Justification	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur

ATTACHMENT 3

**HEATHER GARDENS ASSOCIATION & DISTRICT
CAPITAL RESERVE EXPENDITURE ADVISORY**

PROJECT: _____

DEPT: _____ DATE: _____

BUDGET Year: _____ Tab: _____ Pg: _____	Budget Amount: \$ _____ Expended YTD: \$ _____ Unexp. Balance: \$ _____	Contract Amount: \$ _____ Change Order Res.: \$ _____ Total Project Cost: \$ _____ Add. Funds Request: \$ _____
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BUDGET & FINANCE REVIEW:

- Project has been evaluated by recommending Committee.
- Project/Expenditure is planned & part of the Approved Capital Reserve Budget?
- Three (3) Bids were evaluated & part of the due diligence of project.
 - If No, Is this Explained & Reasoning Provided within bid comparison section?
- Project Meets or is Below the Approved Expenditure Budget?
- Will additional monies be required to complete the project?
 - If Yes, will the project still meet or be below budget.
- Has the Expenditure taken place?
 - If no, when will the expense occur?
- Have all Required Signatures for Approval been obtained at the time of review?

JUSTIFICATION: (Attach backup material as required)

BID COMPARISON: (If required, summarize or attach separate schedule.)

- 1.
- 2.
- 3.

ADDITIONAL INFORMATION: (Attach backup material as required)

1. Department Head	2. CFO	3. CEO	4. Department Comm. Chair	5. Budget & Fin. Committee	6. HGA President	7. HGMD President
<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur <input type="checkbox"/> Concur with Justification	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur

Check concur, non-concur or concur with justification, then initial. Attach comment sheet if you like.

*Capital expenditures, except emergency replacements and weatherproofing performed by HGA labor, are approved/revised as follows:
All items require Block 1, 2 (when needed), and 3 through 8 completed.

ATTACHMENT 4

In addition to the provisions of this PM the following governing documents must be considered in all budget and finance matters.

1. Colorado Common Interest Ownership Act (CCIOA)
2. Amended and Restated Condominium Declaration for Heather Gardens
3. Bylaws of the Heather Gardens Association
4. Bylaws of the Heather Gardens Metropolitan District
5. Colorado Special District Act

ATTACHMENT 5 (EXAMPLE)

HGA AND HGMD BUDGET DEVELOPMENT SCHEDULE FOR 2023 BUDGET YEAR

DATES:

Monday, June 20, 2022	B&F Committee Recommends 2023 Budget Development Schedule
Tuesday, June 21, 2022	2023 Budget Development Schedule approved by HGA Board
Thursday, June 23, 2022	2023 Budget Development Schedule approved by HGMD Board
Monday, July 18, 2022	Copy provided to Heather 'n Yon and ARs for posting and sent via PILERA, etc.
Thursday, August 18, 2022	Budget Schedule article provided to Heather 'n Yon for September issue

Friday, September 9, 2022	Manager's Budget Draft and summary delivered to B&F Committee Members and the Board of Directors of both HGA and HGMD. The budget draft and summary are made available on the website.
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Monday, September 26, 2022 through Thursday, September 29, 2022	B&F Committee conducts budget workshops beginning at 9 AM. Budget workshops continue starting at 9 AM on extra days if needed. Directors of HGA and HGMD are strongly urged to attend. B&F Committee recommends 2023 budgets to both Boards. During the budget workshops (September 26 through September 29), the Joint Budget and Finance Committee encourages and will take questions from owners/residents after each section of the budget is reviewed.
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Thursday, October 13, 2022	10 AM. At a Special HGMD Board Meeting, the District Board accepts the 2023 proposed budget and conducts a Public Hearing on the proposed 2023 budget. After hearing comments, the Board may modify the budget and adopts its 2023 budget. Owners/residents are encouraged to ask questions regarding the budget at the October 13th Special HGMD Board meeting. Colorado statutes provide that for governmental agencies, the Board of Directors (the Legislative body) sets the final budget.
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Thursday, October 13, 2022	1 PM. At a Special HGA Board meeting, the Association Board hears comments and may make changes to the HGA 2023 Budget, approves the 2023 budget, and sets membership veto vote (between 15 and 50 days after notice). Owners/residents are encouraged to ask questions regarding the budget at the October 13th Special HGA Board meeting.
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Wednesday, October 19, 2022	Association and District Budget summaries are available on the website and email to the membership. Ballots are mailed to the membership for mail-in voting. Full copies of the Association and District budgets available in the Administrative Office.
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Auditorium

Tuesday, November 1, 2022	6:30 PM. Evening Membership meeting to present and discuss the budget
Wednesday, November 2, 2022	10 AM. Daytime Membership meeting to present and discuss the budget
Thursday, November 3, 2022	1 PM. Afternoon time Membership meeting to present and discuss the budget

Friday, November 18, 2022	Veto Ballots are due by close of business (Friday before Thanksgiving) A special committee of volunteers will be assembled to count the ballots. Majority of the membership is required to veto the Board approved budget.
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Wednesday, November 23, 2022	Communicate Veto vote results to the community (Day before Thanksgiving)
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Thursday, December 15, 2022	District MUST have 2023 property tax mill levy to Arapahoe County by this date.
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