

HEATHER GARDENS BUDGET & FINANCE

Joint Procedure Memorandum JPM B-1

This Heather Gardens Budget and Finance (B&F) Joint Procedure Memorandum B-1 replaces Heather Gardens Association PM B-1 (Budget Preparation, Administration and Banking, dated September 9, 2014), PM B-2 (Capital Expenditures, dated April 11, 2017) and PM B-4 (Budgeting and Accounting Terms Used in Heather Gardens dated September 9, 2014). These prior Procedure Memorandums should now be removed from your file and destroyed.

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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.

This Procedure memorandum 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 in the back.

B. Association Authority

The Association Amended and Restated Condominium Declaration for Heather Gardens (dated January 20, 2015) is the basic authority for the budget and financial management system developed and used by the Association. In Article I, the Declaration states that the “Manager of the Properties” is the Heather Gardens Association. Included in the “Manager of the Properties” responsibilities is the authority to levy and collect monthly and periodic assessments. All assessments and dues are to be prorated to owners in accordance with the Declaration.

C. District Authority

The District is a quasi-municipal corporation and political subdivision organized on April 6, 1983, as a metropolitan district under Title 32 of the Colorado Revised Statutes for the purpose of providing park and recreational facilities and improving and maintaining streets for the District, for the benefit of the public and inhabitants thereof. The District owns or leases certain real property, including, without limitation, recreational facilities, open space, grounds, roads and walkways, a golf course, a clubhouse, a restaurant, a recreational vehicle parking lot, a community garden, storage units and other real estate, structures, and improvements, and certain personal property locations therein (the “properties”), all forming a portion of the Heather Gardens condominium complex, and dedicated to the nonexclusive use and enjoyment of the public, including the Homeowners and their lessees and occupants of condominium units at Heather Gardens.

D. Concerns

1. The Heather Gardens community includes both residential areas under Association management and recreational areas under District authority. As such, cooperation between the Association and the District is considered important and highly desired.
2. Volunteer participation on the various committees developed to provide advice to the Boards in making good decisions. We need to make the best use of those willing to volunteer in bettering the entire HG community.

E. Management

Management is the General Manager or whomever the General Manager designates for

a given responsibility.

F. Scope

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

1. Review and recommend operating and capital reserve budgets, based upon the review of Management's budget, 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. Monitor expenditures and budgets, such as internal transactions, insurance, financial reports, contracts, revenues, and investments, primarily through monthly review, and advise the Association and District Boards as needed;
4. Recommend investment tools based upon available legal options and the Association and District policies;
5. Recommend the Association and District business insurance programs;
6. Prepare and recommend the Association and District capital projects financing plans;
7. Review and make recommendations on all capital projects over \$5,000 and operating expenditures over \$10,000;
8. Perform internal audits of checks paid, ACH payments, petty cash, inventory, and internal controls;
9. Exercise various responsibilities related to the investment of Association funds which are discussed further in Section VI Investment Procedures and Section VII Banking Procedures;
10. In collaboration with Association management, oversee the conduct of the annual external Audits of Association and District financial records for each fiscal year and recommend acceptance of the audit reports to the Association and District Boards of Directors; and
11. 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 composed of the Association Treasurer, the District Treasurer, and four to seven other resident members/resident electors. The Association General Manager, Controller, 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 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 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. Work Groups

The B&F Committee may create work groups, as needed, to perform its duties and advise the Association and the District Boards of Directors. When a Work Group 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.

III. BUDGET PREPARATION PROCEDURES

A. Budget Initiation

Budget preparation begins with input from the Association and District Standing Committees, Department Managers, and General Manager. The budget will consider the appropriate price indices and the anticipated requirements of the Association and the District. It may also reflect guidance from the B&F Committee and/or the Boards.

B. Budget Schedule

The B&F Committee reviews Management's budget schedule draft and recommends a budget schedule to comply with Colorado requirements for homeowners associations that apply to the Association and Colorado laws that apply to the District. Key items to meet are:

- A summary of the budget adopted by the Association Board must be distributed by mail or delivered to owners, and a meeting held for owners to consider vetoing the budget. This budget must include the District's recommended amount needed for the Association's levied Recreation Fee.
- By October 15 of each year, submit District's budget draft to District Board.
- By November 30 of each year, the Association declaration requires an adopted budget.
- By December 15 of each year, or the last business day before December 15, the District Board must deliver the adopted and approved mill level to the Office of the Assessor, Arapahoe County
- By January 31 of each year, the District must file with the Division of Local Government, State of Colorado a certified copy of the adopted budget, including budget message and any resolutions adopting the budget, appropriating money, and fixing the rate of any mill levy.

The District is expected to hold special meetings for budget development per the Association's legal requirements.

The following is a basic schedule draft that was designed to serve the budget requirements. This schedule, showing dates and including possible modifications, needs action in July/August of each year.

1. Provide notices via the Association website, the Heather Gardens Email Blast, PILERA, Heather 'n Yon, and other means deemed appropriate, on the Association and District annual approved budget schedule, and how interested parties can get involved. First notice in September, second notice for B&F Committee work session, and third notice with the distribution of draft budgets for Board action.
2. Manager's Budget Distribution ten (10) business days prior to B&F Committee budget work sessions in October, with draft budgets distributed to B&F Committee, District Board, and Association Board.
3. Second or third week in October — B&F Committee holds work sessions to review Management's Association and District budgets. B&F Committee recommends Association and District budgets and supporting dues and taxes to the respective Boards.
4. At the regular or special October District Board meeting, the District Treasurer presents the B&F Committee's recommended budget, and the District Board accepts the draft budgets for distribution and review by the voters and sets the public hearing to receive comments on the draft budget.

5. At the regular or special November District Board meeting, District conducts its budget public hearing and adopts its budget.
6. At the regular or special November Association Board meeting after the District's budget meeting, the Association Treasurer presents the B&F Committee's recommended budget, and the Association Board approves the budgets for distribution and sets the membership meeting to consider a budget veto.
7. The accepted budgets will be posted on the Association website. Budget summaries will be mailed to the Association membership and District electors. Notices about the budget distribution process, scheduled meetings, and how interested parties can get involved will be sent via the Association email notice system, to all Area Representatives and posted in the Heather 'n Yon.
8. In late November, the Association conducts a vote to determine if the approved Association budget is vetoed.

C. Management's Budgets

1. Based on input from the Association and District Standing Committees and department managers, Management prepares 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. The budgets will also contain a 3-5 year abbreviated forecast budgets noting impacts of trends and changes that might be needed.
2. Management will ensure these budgets are in the hands of reviewing officials at least ten (10) business days prior to the B&F Committee Review (see annual budget schedule for actual date)
3. Unless the B&F Committee agrees otherwise, Management's Association Budget will have 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

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4. Unless the B&F Committee agrees otherwise, Management's District Budget will 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
 3. Foundation Fund
 - e. Enterprise Programs
 1. Golf Course
 2. Restaurant
 3. Clubhouse
 - f. Summary
 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. Additional information, as needed, is to be provided for all years shown. Wages and Benefits Section:
 - a. Number of FTE for full time salaries
 - b. Number of hours for part-time salaries
 - c. Number of overtime salaries
 - 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.
 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 the draft of Management's budgets and invites the members of the Association and District Boards and the Association membership and District voters to this work session. The review dates are identified in the Association/District approved annual Budget Schedule.

2. Line Item Review

Factors to be considered include, but are not limited to:

- a. Changes in Dues
- b. Dues Schedule
- c. Changes in Cost Center components of the budget
- d. Capital Reserve expenditures and revenues
- e. Anticipated revenues from interest and use fees

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 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 early November special meetings.

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 Email Blast, and other means deemed appropriate based on the approved annual Budget Schedule to all in the system announcing 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. Control

1. Monitoring. The B&F Committee monitors a broad range of budget-related information at its monthly meetings.
 - 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 no later than close of business on Tuesday 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.

2. Expense Approval

- a. Overall Prudence. Inclusion of an expense in the approved budget does not mean the expense must be made.
- b. Capital Expenditures. Capital expenditures for items not approved in the budget, including substitutions and emergency expenditures, shall be reported to the B&F Committee at its next regular meeting.
- c. Operating Expenditure under \$10,000. Spending authority for staff is administered by the Manager based upon a schedule approved by the Association Board.
- d. Certain recurring 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.
- e. Operating Expenditures over \$10,000. All requests for operating expenditures over \$10,000 must be initiated using the Request for Operational Expenditure (ROE), Attachment 2. Purchases require three (3) written bids, which should be comparable as to quantities and specifications. Requests will be routed in the following sequence:
- 1) Department Managers
 - 2) Contracts Manager, if necessary
 - 3) Controller
 - 4) General Manager
 - 5) Department Committee Chair
 - 6) B&F Committee
 - 7) Association President, and District President if a District item
- f. Expenditures on Budget. Management reviews and approves operating expenditures which exceed the amount budgeted for an expense provided it is less than \$10,000 and does not cause projected expenditures to exceed total amounts contained in the operating budget. Such expenditures shall be documented in monthly exception reports.
- g. Recurring Expenses. Management is authorized to approve certain recurring expenses that exceed his \$10,000 authority, such as, but not limited to, gas, electricity, water and sewer charges, the refilling of gasoline storage tanks and payroll and income taxes.

B. Contracting Procedures

1. Management will develop and distribute a Request for Proposal (RFP) to contractors for a single project budgeted to cost more than \$10,000. The RFP may cover more than one year (multi-year) of common projects.
2. For any project that is expected to cost more than \$25,000, Committee Chairs and Board members are invited to attend bid openings received.
3. Persons signing contracts must have spending authority for the total contract price.

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 and submit Request for Capital Expenditure (RCE) form providing the project justification through appropriate approval channels sufficiently in advance of the on-line target date to permit orderly and deliberate review of the request. 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 problem 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.)

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- 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. If the request is not within budget, forward the request, with nonconcurrency or concur with justification, to the Budget & Finance Committee. A financial justification will be attached to all concurrence with justification.
 - g. Enter all capital property into appropriate replacement and depreciation schedules. Inventory is to be valued at acquisition cost.
 - h. If expenditure is warranted and if the amount is within budget and approval authority, approve the request.
 - i. Report to the respective Board and the Budget & Finance Committee at their monthly meetings on the progress of scheduled capital projects.

2. Committee

Determine the need for the expenditure and indicate, by the endorsement of the committee chair on the associated Request for Capital Expenditure (RCE), concurrence or non-concurrence with a proposed expenditure and forward to the B&F Committee. See Attachments 3 and 4, for example. Since capital expenditures include the purchase, construction, or major repairs of capital property, this requirement applies to all Association and District Committee Chairs. Funding is not a factor at the Committee level.

3. Budget & Finance Committee

- a. Review RCEs received from committee chairs since the last meeting. Reviews consider the scope, relevance, and compatibility with other Association and District objectives.
- b. Forward to the appropriate Board, all expenditure requests received since the last monthly meeting, indicating the Committee's concurrence or non-concurrence.
- c. Expenditures: Approve request, if expenditures are justified, or disapprove the request and forward to the appropriate Board.

B. Procedures

1. Contracting Procedures

- a. Management will develop and distribute a Request for Proposal (RFP) to contractors for a single project that is budgeted to cost more than \$10,000. The RFP may cover more than one year (multi-year) of common projects.
- b. All RFPs will include General Conditions, Specifications, and Bid Requirements.
- c. All bids received for a project that is budgeted to cost more than \$25,000 will be opened at an open public forum.

2. Capital Expenditure Approval

All requests for capital expenditures under \$10,000 for items included in the approved budget shall be routed to the General Manager for approval. All other requests for capital expenditures, except those made for emergencies (see paragraph V. B. 2.c below), will be routed in the sequence as listed in the RESPONSIBILITIES section. All Capital Expenditures, except emergencies, must be initiated using the appropriate Request for Capital Expenditure (RCE) in attachments 3 or 4. This applies to furnishings and equipment, as well as construction projects. The following procedures apply:

- a. A capital project totaling less than \$10,000 and budgeted, requires at least two bids (telephone and/or email is acceptable). When possible, bids should be comparable — same type and capability of equipment, same quantities, similar accessories, similar configurations, similar specifications, etc.
- b. A capital project, whose total cost is \$10,000 or more requires three written bids. Bids should be comparable — same type and capability of equipment, same quantities, similar accessories, similar configurations, similar specifications, etc.
- c. If emergencies occur:
 1. Management takes the initial action required to determine the nature and extent of the problem and the means of correcting it.
 2. In accordance with the normal emergency purchasing procedures, Management obtains a Purchase Order (PO) from the security officer on duty, completes it and:
 - (a) Uses the PO to acquire item or items necessary to effect emergency repair or replacement of facility or equipment.

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- (b) If the amount of purchase is \$7,500 or more, obtain verbal approval of either the General Manager, or if not available, the Controller, or the Board President.
 - (c) Either on a PO or as an attachment clearly defines the nature of the emergency, as well as actions taken to correct the problem.
3. On the next workday, Management takes action necessary to obtain approvals appropriate to the emergency.
- d. Change orders may be approved by Management if:
1. Amount of change order is within Management's approval authority and
 2. Total of project cost, including the change order, does not exceed the budget amount.
 3. Identification of the change order amount, justification, and description of the scope are included in the next report to the B&F Committee, and to the status of the project is reported to the Board.
 4. Change orders which do not fit the above three criteria must be approved by the appropriate reviewing authorities using the RCE.

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 & 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. Management should respond to the following:

1. Was the project awarded with sufficient time to allow completion by the end of the fiscal year?
2. If the project was awarded with insufficient time to allow completion by the end of the fiscal year, what factors caused this delay?
3. Was the delay in completing the project due to delay by the vendor?
4. Was it necessary to amend the scope of the project?
5. Other information as needed or requested.

The B&F Committee will recommend appropriate action on Capital projects not started.

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 & 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 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 and rejected transactions as well. Report such information to Management in settling the transactions.

E. Association Board of Directors:

1. Based on the recommendation of the Budget & 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:

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- 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 for information on banking authority assigned to Management.

VIII. ANNUAL EXTERNAL AUDIT

A. Management

1. Work with the contracted Audit Firm to establish the process and schedule for each annual audit;
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 Controller, General Manager, 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.

B. Budget & Finance Committee

In collaboration with Association management, oversee the conduct of the annual external Audits of Association and District financial statements for the prior 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 & 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.

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 & Finance Committee, accepts the final audit reports;
3. Receive copies of the Management Letter and act as appropriate on recommendations made by the Budget & 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.

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, to apply against a delinquent account of an owner, or emergency needs, and shall be refunded to the owner (except as hereinafter provided) 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.
 - a. The funds available for working capital purposes may be used, as needed, and must be replenished through the normal operating budget year.
 - b. The use of the funds for emergency purposes shall be defined as large capital property losses due to weather related causes or other Acts of Nature. These funds can also be used for the prevention of further damage to capital property or such other emergencies as approved by the Association Board.
 - c. If the need for such emergency funds arises, then the approval of the expenditure and replenishment of the funds must be made as set forth below.
 - d. Funds in the Impound Fund will be invested in accordance with the terms of the Investment Policy. See VI Investment Procedures.

B. Responsibilities

1. MANAGEMENT

- a. Provides information to Budget & Finance (B&F) Committee on the rationale for using the Impound Fund for capital expenditures, including:
 1. Description of projects
 2. Justification on why the Impound Fund resources are needed
 3. Total funds required for projects
 4. The terms to replenish the Fund.
- b. Prepares all necessary reports to record the use and recovery of funds in accordance with the Board's approval.

2. BUDGET AND FINANCE COMMITTEE

- a. The B&F Committee makes recommendations to the Association Board of Directors concerning the proposed use and replenishment of these funds through the capital deposits schedule.
- b. In order to preserve the balance in the Impound Fund, the B&F Committee will review the capital deposits schedule to ensure that the balance of funds sought can be recovered over the approved time set forth in the B&F Committee Impound Fund use recommendation made to the Association Board.
- c. Large fund use may require recovering the funds in more than the current year. Thus, the amount to be recovered in each subsequent year must be stated in the capital deposits schedule and applicable budget.

3.- ASSOCIATION BOARDS OF DIRECTORS.

Review and approve, or amend, the recommendations of the B&F Committee for special use of the Impound Fund during the fiscal year.

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 volunteers appointed. Most of these volunteers have at least two characteristics in common:

- a. They are 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 are familiar with budgeting and accounting systems. These systems are of several different types, and they use terms and procedures, which, in some cases, vary significantly in meaning and application.

One result of this solution is that when one individual uses a budgeting or accounting term, other individuals attending the meeting or participating in the discussion frequently understand it in varying ways. The degree of understanding (or misunderstanding) is a function of the system with which the individual speaking or listening is familiar. The purpose of the definitions section is to provide a glossary of terms and definitions as a means of minimizing misunderstanding in Heather Gardens' management activities.

When individuals participate in an activity as technical and demanding as preparation and approval of operating and capital reserve budgets and review of accounting reports, they should speak the same financial language. The budgeting and accounting language applicable to related Association and District activities is outlined below. All persons having budgeting and accounting preparation, approval, and review responsibilities must familiarize themselves with these terms and definitions and use them in the activities for which they are responsible.

- A. **Accrual Basis of Accounting.** A method of accounting which records revenue in the period in which it is earned; and measurable expenses in the period in which they are incurred.
 1. Record revenue as it is earned, not as it is received.

-
2. Recognize and record supplies when the title is taken.
 - a. FOB destination: Title remains with the seller while goods are in transit.
 - b. FOB Shipping Point: Title to the goods passes at the point of shipment, and the goods are the property of Association or District while in transit.
 3. Record contract amount when the first labor is performed on a contract. Prepare a report for the outside auditors showing the percent of the contract completed at year-end. The Controller will adjust the financial statements showing the completed portion of the contract as required and the uncompleted portion as Fund Balance Designated for Subsequent Years' Expenditures (Percentage of Completion method).
 4. During the year, major expenses are accrued monthly. At year-end, all expenses for the year are accrued.
- B. Accumulated Depreciation.** A contra-asset account shown as a deduction from the related asset account in the balance sheet. Depreciation is taken throughout the useful life an asset is accumulated in this account. Depreciation is not funded through the budgeting process. Future replacement of assets is funded through the capital programs.
- 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)
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.
- 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 moneys 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.

1. Controlled personnel and an annual physical inventory of supplies and goods on hand.
2. Uses the perpetual inventory system, which accounts for the merchandise on a continuous record showing the quantity and cost of all items on hand.
3. Maintained via the lower-of-cost-or-market method. This is a method of inventory pricing in which goods are valued at acquisition cost or replacement cost (market), whichever is lower.
4. First-In, First-Out (FIFO). The method of computing the cost of inventory is based on the assumption that the first merchandise acquired is the first merchandise disbursed, and that the ending inventory consists of the most recently acquired items.

S. Monthly Operating Analysis (MOA). A comparison to the budget of income and expenses for Association and District.

T. Operations Budget. A plan or forecast for a future period expressed in quantitative terms. Intends to establish objectives 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. Reversing Entries. An Association and District period-beginning bookkeeping technique consisting of the reversal on the first day of the new accounting period of those period-ending adjusting entries which accrue expense or revenue and thus will be followed by later cash payments or receipts. The purpose is to permit Management to record routine transactions in a standard manner without referring to prior accrual entries.



Jill Bacon, Association President



Craig Baldwin, District President

ATTACHMENT 1

<p>HEATHER GARDENS ASSOCIATION ACH PAYMENT AUTHORIZATION FORM</p>

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:

CONTROLLER

Date

GENERAL MANAGER

Date

CHECK SIGNING BOARD MEMBER

Date

ATTACHMENT 2

**HEATHER GARDENS ASSOCIATION
OPERATIONAL EXPENDITURES OVER \$10,000**

PROJECT: _____

DEPT: _____ DATE: _____

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

DESCRIPTION:

JUSTIFICATION: (Attach backup material as required)

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

RECOMMENDATION:

1. Department Head	2. Contracts Manager	3. Controller	4. General Manager	5. Department Comm. Chair	6. Budget & Fin Committee	7. HGA President
<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	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur	<input type="checkbox"/> Concur <input type="checkbox"/> Non-concur

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

* Operational expenditures are approved/revised as follows:
All items require Block 1, 2 (when needed), and 3 through 7 completed.

ATTACHMENT 3

**HEATHER GARDENS ASSOCIATION
REQUEST FOR CAPITAL EXPENDITURE**

PROJECT: _____

DEPT: _____ DATE: _____

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

DESCRIPTION:

JUSTIFICATION: (Attach backup material as required)

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

RECOMMENDATION:

1. Department Head	2. Controller	3. General Manager	4. Department Comm. Chair	5. Budget & Fin Committee	6. HGMD President
Concur Non-concur	Concur Non-concur Concur with justification	Concur Non-concur	Concur Non-concur	Concur Non-concur	Concur 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 Blocks 1, 2 (when needed), and 3 through 7 completed.

ATTACHMENT 4

**HEATHER GARDENS METROPOLITAN DISTRICT
REQUEST FOR CAPITAL EXPENDITURE**

PROJECT: _____

DEPT: _____ DATE: _____

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

DESCRIPTION:

JUSTIFICATION: (Attach backup material as required)

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

RECOMMENDATION:

1. Department Head	2. Controller	3. General Manager	4. Department Comm. Chair	5. Budget & Fin. Committee	6. HGA President	7. HGMD President
Concur Non-concur	Concur Non-concur Concur with Justification	Concur Non-concur	Concur Non-concur	Concur Non-concur	Concur Non-concur	Concur 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.