

Chapter 12 -Section 12.03

TITLE: BUDGET & FINANCE COMMITTEE

POLICY

The Rotonda West Association (RWA) is authorized by Florida Statutes 720 and 617 to organize according to the needs of the Association. The RWA By-Laws, in Article II, Section 10, allows the Board to establish committees in order to facilitate the over-all operations of the Association.

The Budget and Finance Committee is hereby authorized as a non-required Standing Operating Committee according to the Rotonda West Association's Policy for Committees, Section 12.0 to carry out the purposes stated in the Charter below. The Committee is also authorized to make recommendations to the Board of Directors as may reasonably be necessary to advance the interests of RWA. The Board has the option of modifying the Charter at any time.

CHARTER

The Budget and Finance Committee shall provide information and assistance to the Board of Directors relating to financial matters for the Rotonda West Association, as identified under its Charter, as follows:

- 12.03.01 – Purpose
- 12.03.02 - Membership and Structure
- 12.03.03 - Duties and Responsibilities
- 12.03.04 - Annual Budget Development
- 12.03.05 - Monthly Financial Reports
- 12.03.06 - The General Ledger
- 12.03.07 - Cash Receipts
- 12.03.08 – Cash Disbursements
- 12.03.09 – Petty Cash
- 12.03.10 - Reserves
- 12.03.11 - Relationship with Independent Auditors

TITLE: PROCEDURES

12.03.01 - PURPOSE

Budget and Finance is an advisory committee to the Board of Directors. In this role it provides advice to and responds to inquiries from the Board of Directors and the Manager or his/her designees, as described in the RWA By Laws relating to financial matters which include but are not limited to the budgetary process, the operating, and capital and reserve budgets that may be contemplated by the Board, staff, or other committees. This Committee does not seek to determine operational policy or directly influence RWA operations. The purpose of the Committee is to:

- A. Review the financial operations of the Association;
- B. Make recommendations for improving the financial operations;
- C. Work collaboratively with staff in the development of budgets for each fiscal year. Make recommendations to the Board regarding the adoption of budgets for each fiscal year.

12.03.02 - MEMBERSHIP AND STRUCTURE

- A. The Finance Committee shall consist of no less than five nor more than nine members in good standing, appointed by the Board in accordance with the RWA By-Laws, to serve for staggered terms of office with at least two members appointed annually.

The current elected Treasurer of the Board shall serve as Committee Chairperson.

- B. The Committee shall elect from its members a liaison person for communication with other standing and Ad Hoc Committees, as appropriate.
- C. The Manager and/or his/her designee shall serve as management liaison to the Committee.

12.03.03 - DUTIES AND RESPONSIBILITIES

The Finance Committee shall be responsible for:

- A. Working collaboratively with Committees and Staff in the development of annual RWA Operating and Reserve budgets for each fiscal year. Making recommendations regarding the adoption of these budgets to the RWA Board of Directors not later than November 1st of each fiscal year. The desired outcome is budget material supported by Committees, Staff and the Finance Committee.
- B. Monitoring the status of the Operating and Capital Budget, as to (a) status of line item expenditures, (b) status of revenue, and (c) emergency needs (unbudgeted).
 - 1. The Committee will meet at least monthly and will report in writing the results of each meeting to the Board of Directors not later than 30 days after each meeting.
 - 2. The Committee will make recommendations, as appropriate and necessary, as to revisions in the Operating and Capital Budgets during the fiscal year.
- C. Review of all regular Board of Directors agenda items that have a financial impact to recommend source(s) of funding and analyze the effect on the operating budget. These items shall include, but not be limited to:
 - 1. Policy changes
 - 2. Staffing requests
 - 3. Requests for funding from re-allocated or Undesignated Reserves
 - 4. Requests for re-allocation of budget funds

The Finance Committee's recommendations shall be presented to the Board of Directors in open session when the Board deliberates on the Agenda item(s).

- D. Aid the Treasurer in special research projects as specifically requested by the Board.
- E. Present the Treasurer's Report to the Board of Directors when the Treasurer is unavailable.
- F. Assist a new Treasurer in getting acclimated to his/her responsibilities.
- G. Advise on rules and regulations from federal, state, and local regulatory agencies that may impact RWA as specifically requested by the Board. This information may be obtained by visiting the websites of appropriate regulatory agencies. If

direct contact with agencies is needed, refer to Federal Regulations and/or Florida State Statute(s).

- H. Advise on issues relating to Grant Assistance for various related projects as specifically requested by the Board. If direct contact is needed refer to RWA By-Laws.
- I. Such other responsibilities as may be referred to it from time to time by the Board.

All actions of, and conduct by, the Finance Committee shall be in strict compliance with RWA Board directives.

12.03.04 - ANNUAL BUDGET DEVELOPMENT

The RWA Board of Directors is empowered to make and collect, as well as use and expend annual and/or special assessment charges, fees and fines in accordance with the provisions of the RWA Bylaws and the Declaration of Restrictions.

The RWA Board of Directors will prepare an Annual Budget which determines the annual assessment and details the revenues and expenses for the Operating and Reserve funds.

Application:

A. Budget Guidelines and Timeline

With approval from the Board of Directors, the Treasurer shall prepare recommended budget guidelines to be followed by the Committee Chairpersons and RWA staff. The guidelines shall give consideration to the general economic climate and shall emphasize any goals or objectives of the Board that may impact on the budget. The budget guidelines will also establish criteria for determining budget priorities, based on the priorities of the Board.

The Treasurer shall prepare a schedule for the preparation of the budget in June of each year and submit it to the Board. The schedule shall provide a method of soliciting

public input in the earliest stages of budget preparation. The Board shall hold at least one meeting prior to budget approval to solicit input from Association members.

The Board will adopt the Operating, Reserves, and new Capital projects budgets for the following year not later than the November Board meeting of each year.

B. Priorities

1. Existing operations
2. Reserves, including building, common areas, and canals
3. New capital projects

C. Responsibilities

The Treasurer, with the assistance of the Association Manager, will prepare a draft of the Annual Budget for Board review and approval. The Treasurer may enlist the assistance of the Budget and Finance Committee in the budget process.

The role of the Board of Directors is to review the budget to ensure that the budget meets the needs of the Association, and adopt a budget that addresses those needs in a fiscally responsible manner. The Staff and Committee Chairpersons submit budget requests to the Manager for incorporation into the Annual Budget. The Manager prepares a preliminary draft of the budget for review by the Treasurer.

- a) The Treasurer will update the reserve requirements and prepare a reserve budget for the July Board meeting. The reserve requirements and reserve budget will be based on a reserve study prepared by an independent contractor. The reserve study will be updated every three years. The reserve budget will also incorporate new capital projects recommended by RWA committees and approved by the RWA Board. The Treasurer will recommend a plan to the Board to fund the reserve budget.
- b) The Board reviews Staff and Committee Chairpersons' budget requests, recommends priorities for competing needs, and recommends to the Board a budget that addresses the needs and priorities of the Association within funding levels acceptable to the Association.

D. New Initiatives (Operating or Capital)

Each new initiative, (operating or capital) proposed in the budget must be fully justified. The justification must include:

- a) A detailed description of the initiative;
- b) The benefits to be derived from the initiative;
- c) Specific tasks and resources needed to accomplish the initiative;
- d) A discussion of alternative solutions;
- e) A reference to the goal and objective in the RWA Strategic Plan.

The Board will review the benefits and costs of new initiatives, and determine the importance and priority of each initiative.

E. Budget Approval and Presentation

The operating and reserve budgets, and assessment increases will be approved at the November Board meeting. A budget presentation will be made to the public in the November meeting with an explanation of budget changes and the justification for assessment increases. A brief budget presentation will be made at the annual meeting as part of the Report of the Treasurer.

12.03.05 - MONTHLY FINANCIAL REPORTS

- a. Monthly financial reports shall be submitted to the Board of Directors by the Treasurer at the regular meetings of the Board. The reports will include the month to date and year to date Balance Sheet, Statement of Revenues and Expenses with comparisons to Budget, Reserve Statement, and the check register.
- b. The Treasurer will also provide a Report of the Treasurer to the Board.
- c. Summary financial statements will be provided to residents.
- d. Review of Financial Data. The Manager will reconcile all accounts prior to preparing financial statements. The financial statements will be submitted to the Treasurer for review at the monthly Finance and Budget Committee Meeting.
- e. The Treasurer, with the assistance of the Budget and Finance Committee and Manager will:
 - 1. Provide an analysis of the revenues and expenses with comparisons to budget, deviations from the budget being reviewed. The Treasurer, with the assistance of the Budget and Finance Committee will make recommendations to the Board

regarding any operational changes that need to be made as a result of budgetary deviations.

2. Review cash balances to ensure adequate funds are available for operations.
3. Review timeliness of collections of assessments and report deficiencies to the Board.
4. Review the balances in reserve accounts and monthly activity to ensure expenditures are within the approved budgets for reserve projects. All reserve expenditures and any changes to the reserve accounts or budgets must have prior Board approval.

12.03.06 – THE GENERAL LEDGER

A. Policy

It is the policy of the RWA Board of Directors that all Association records be maintained in a proper manner. The General Ledger is specifically identified to be protected by this policy because the financial statements are drawn from general ledger balances.

B. Responsibilities

The internal control system is to insure the mechanical accuracy and integrity of the records and to determine the overall propriety and adequacy of the journal entries and ledger accounts. All entries must be posted from authentic sources. Under no circumstances is there to be recording of unsupported debits or credits in the General Ledger. Also journal entries are to be considered in terms of their general reasonableness.

It is the responsibility of the Board President, Board Treasurer and Manager that proper internal controls exist with the General Ledger and proper verification takes place.

C. Application

All employees are to provide accurate information with properly supported invoices, etc. The Manager and/or designee shall approve and designate line item(s) to expense

All entries are to meet any and all State, Federal, and/or Local statues governing proper accounting of the Association's assets and/or Audit recommendations to assure the accuracy, fairness, and general acceptability of RWA's accounting records and statements.

12.03.07 CASH RECEIPTS

A. Policy

The RWA Board of Directors affirms the necessity of maintaining a system of internal control over cash receipts. The system should provide assurance that all receipts are recorded promptly and accurately. Prompt entry and deposit of receipts are basic to the integrity of the system.

B. Application

- a) Payments for all fees, dues, and/or purchases in any RWA facility are encouraged to be in the form of:
 - 1. Credit Cards honored by RWA (VISA - Master Card - Discover)
 - 2. Personal Check made out to RWA
 - 3. (Note: Cash for any expenditure is allowable)
- b) Overdue RWA Accounts will carry a finance charge of 1.5% per month -18% annually, simple interest, on the balance due. Checks returned to RWA from Banks will carry a penalty fee as set by the Board of Directors.
- c) All records of financial transactions (e.g. checks, charge card forms, cash, etc. together with matching receipts) shall be reconciled each normal working day and properly recorded as received.

Individuals handling monies/financial records are required to be responsible to document at any given time the financial transaction for which they have been assigned as part of their job responsibility.

- (d) Receipts will be posted to the appropriate accounting records each normal day.
- (e) All cash is to be placed in the Office safe daily.

C. Responsibilities

The Manager and Assistant Manager are to see that this policy is implanted as written and approved.

12.03.08 CASH DISBURSEMENTS

A. Policy

It is the policy of the RWA Board of Directors that the Cash Disbursements System provides Assurance that cash disbursements have been made only for authorized business purposes and have been properly recorded.

B. Responsibilities

- (a) It is essential that all checks be pre-numbered and all numbers in the series be accounted for. Voided checks should be defaced to eliminate any possibility of further use.
- (b) Officials authorized to sign checks will review the documents supporting each disbursements to insure that the transaction has been fully verified and that payment is justified. He/she will perforate or otherwise mark the supporting documents to prevent reuse. **Only original invoices from vendors should be paid.**
- (c) Signature Authority: Only the President, the Secretary and the Treasurer of the Board of Directors are authorized to sign checks on behalf of the Association unless the Board approves the authorization of another RWA Director. **Each check shall be signed by at least two of these authorized Directors only.**

C. Administration

The Manager is responsible to assure that the above policy is administered at **all times**. The Manager or his/her designee is responsible to report to the Manager and Board Treasurer any infraction of the rules and procedures of this policy and to assure that the personnel handling cash disbursements are fully aware of the rules and procedures.

12.03.09 – PETTY CASH FUND – CONTROL

A. Policy

The RWA Board of Directors affirms the necessity of maintaining a system of internal control over a Petty Cash Fund. It is the policy of the RWA Board of Directors that this fund is

handled through a voucher system in which the person desiring the money submits a receipt properly authorized and receives the cash.

The internal control system provides assurance that:

- a) Cash disbursements have been made only for authorized business purposes and have been properly recorded. A ceiling of \$200.00 is set for each individual petty cash transaction.
- b) Cash on hand balance is accurately stated and subject to appropriate safeguards.
- c) A Petty Cash balance of \$200.00 shall be maintained. Replenishment will be required as necessary.

B. Responsibilities

The designated custodian of the Petty Cash Fund will:

- (a) Provide adequate safeguards for the Fund.
- (b) Limit Petty Cash disbursements to the maximum amount prescribed by the RWA Board of Directors.
- (c) Request the replenishment of the Petty Cash Fund as necessary. List all vouchers by amounts and account numbers and attach the voucher to the list. The total amount of the vouchers added to the total cash remaining must equal the authorized amount of the fund.

The person(s) responsible for signing checks will review the documents supporting each disbursement for completeness and authenticity and perforate or otherwise mark to prevent reuse. The replenishment check will be made out to Cash.

C. Application

The Petty Cash Fund is subject to a no-notice inspection at any time when requested by the President or Treasurer of the RWA Board of Directors and/or the Manager.

12.03.10 - RESERVES

A. Policy

In order to minimize the requirement for special assessments and protect the property values of Association members, the Board maintains voluntary reserve funding for future repairs or restoration expenditures. Reserves will be utilized for future expenses of maintaining common property, and to fund capital expenditures that have a long-term benefit for Rotonda West. The funding is recorded as a line item in the annual budget, and when collected it is placed in an interest bearing savings account.

The RWA:

- a) May only use reserve funds for their stated purpose, unless the stated purpose ceases to exist.
- b) May not commingle reserve funds with operating funds.
- c) Must add all interest earned back in the reserve fund, not into operating funds.
- d) Must have a method of funding the reserves.
- e) Must utilize a reserve study to determine the reserve budget.

B. Application

Definitions

Reserves

Reserve funds are funds set aside for future expenditures that extend the useful life of an existing asset/component.

Capital improvements, unlike repair or replacement of existing assets, are funds designated for the acquisition or construction of a new component such as a memorial park. For practical purposes all of these funds are included in the reserve funds.

Whether for replacement, deferred maintenance or capital improvement, a component eligible for reserve funding must have:

- (a) A limited useful life expectancy.
- (b) A predictable useful life expectancy.
- (c) A cost greater than \$1,000 per category.

Expenditures from reserve funds are based on an ongoing review of the condition of reserve assets. This review by the RWA Board identifies and anticipates the need to expend reserve funds for specific assets. Actual expenditures may vary from cost

estimates due to inflation or unanticipated problems encountered as a project develops.

Variations will require a determination by the Board as to how to deal with such variances, prior to making any expenditures that were not in the original budget or scope of work.

Reserve Requirements

Reserve requirements are the amount of money needed to fully fund the future repair and maintenance of Association assets. The reserve requirements are based on a reserve study approved by the Board of Directors.

Reserve Studies

The RWA Board will engage a professional firm to conduct a study which provides information regarding the physical status and repair/replacement cost of major common area components. The study also provides a financial analysis to determine a recommendation for an appropriate reserve contribution rate (Funding Plan). This study along with year-to-year input from the Board, Committees, and membership is used to determine funding requirements. Generally, a reserve study should be conducted at least every five years. The RWA Board will determine when it is appropriate to have an updated study done.

Reserve Fund Calculation Methods

Various methods are available based on the funding plan goal. RWA uses the straight-line segregated method (also referred to as the component method). This method requires:

- a) An assessment of the condition of the asset
- b) Replacement cost and how it is determined
- c) The age of the asset
- d) The useful life of the asset

The straight-line method consists of dividing the replacement cost of an individual component by its remaining useful life to arrive at its yearly reserve contribution amount for that item. The process is repeated for each asset and added together to determine the total reserve requirements. This process takes place until an asset is either repaired or replaced taking into

account current circumstances, e.g. increase in costs or change in the estimated useful life.

Selecting a Funding Plan

Various methods are available for funding reserves. These are:

- a) Full Funding
- b) Baseline Funding
- c) Threshold Funding
- d) Statutory Funding

Funding plans may be selected to achieve different levels of funding. RWA has been using Full Funding since the 2007 Reserve Advisors Study. This requires that the reserves are maintained at or near 100 %. For example, if a component (asset) has a 10- year life and a replacement cost of \$10,000, \$3,000 is set aside for its replacement after 3 years ($\$10,000 \div 10 \text{ years} = \$1000 \text{ per year} \times 3 \text{ years} = \3000). The \$3000 annual funding equals Full Funding. The RWA Board may change the funding method as deemed appropriate at any given time.

It is the responsibility of the Finance Committee to monitor the reserves on a monthly basis to ensure that the funds are near or at 100%. The Treasurer will keep the Board informed as to the status of the Funding Plan. The Treasurer will also prepare the annual reserve expenditure budgets.

Investment Policy for Reserves

As authorized by the RWA Board, reserves shall be invested in accordance with the following policy:

Obligations of funds or no real funds shall be invested except in authorized financial instruments.

Authorized investments are those that are in accordance with the governing documents of RWA and are fully guaranteed by the U.S. Government.

All accounts, instruments, and other documentation of such investments shall be subject to the approval of, and may from time to time be amended by, the RWA Board as appropriate, and shall be reviewed at least annually.

Investments shall be guided by the following goals, listed in decreasing order of importance:

- Safety of principal.
- Liquidity and accessibility.
- Minimal cost
- Professional management.
- High level of return consistent with preservation of principal and interest.

Annual Audit Report

For voluntary reserves that are not governed under Florida Statutes, the annual audit report must include a disclaimer statement consistent with the Florida Statutes language.

12.03.11 - RELATIONSHIP WITH AUDITORS**A. Purpose**

The Audit Committee shall be an operating committee of the RWA Board of Directors. The Audit Committee shall ensure that the Association will maintain complete and accurate records according to standard business or corporate best management practice by conducting internal audits of any and all financial and business practices of the Association. It is the policy of the RWA Board of Directors to maintain complete and accurate disclosure of all financial and business actions of the RWA Management shall, therefore, provide documentation and information requested by the external auditor and/or the Audit Committee with respect to audits being conducted. The policy of maintaining complete and accurate disclosure of financial and business practices is described in Section III. Duties and Responsibilities. Management shall not refuse to provide such information.

B. Committee Membership and Structure

The Audit Committee shall be comprised of a minimum of three members and a maximum of seven members, appointed by the Board. Employees of the Association may not serve on the Audit Committee. The General Manager, the Treasurer of the Association and the BOD liaison may assist in determining the credentials in accounting. A CPA certificate, bachelor's degree in accounting, or equivalent experience in the field of accounting/auditing are deemed to be professional credentials in accounting, for the purpose of meeting this stipulation, but such credentials can be waived if sufficient appropriate business experience is present.

To interface with the schedule for the Annual Independent External Audit, the Committee shall hold an organizational meeting in the 1st quarter of each year. At that time, the Audit Committee shall elect a chair who will be responsible to the RWA Board of Directors for the operations of the Audit Committee.

C. Duties And Responsibilities

1. The Audit Committee is to serve as the primary interface between the independent external auditor and the Board of Directors, for the purpose of assuring accuracy, reasonableness, fairness, and general acceptability of management and operations controls, records and statements as they relate to the financial and operating interests of the RWA.
2. The Audit Committee shall nominate the independent auditor(s) after discussing their work with them and establishing that their credentials are both proper and sufficient to be adequate to fulfill the requirements of the Association. The RWA

Board shall consider the recommendation of an auditor as presented by the Committee.

3. The Audit Committee, along with the Manager or designee, shall meet with the auditor at least twice each year, and more often if the Committee deems it necessary, to assess the overall accounting and internal control performance of the Association during the year. The Committee shall provide written reports of their findings to the Board.
4. The Audit Committee shall serve as the internal auditor for the BOD, continuously monitoring and assessing risk of loss areas and internal control procedures in the Association's operations and conduct those internal audits as it sees fit and appropriate to conduct.
5. Board requests that specific elements of the accounting system be examined shall be considered for inclusion in the program, but the Committee shall not respond to individual Director's requests that specific audit activity be undertaken. Such requests shall only be made via the liaison from the Board President.
6. A Confidentiality Agreement shall be executed by each Audit Committee member when appointed and maintained in the Association's files.

D. Audit Process

The Audit Committee shall develop its own procedures in accordance with best management practices in support of the following overall process.

1. The Committee shall, on behalf of the BOD, assess the areas of potential risk of loss to the Association and perform sufficient internal audits of such areas of the accounting and management systems as it sees fit, proper and necessary. The Committee's subsequent reports regarding these audit findings should outline the purpose, the scope and the time frame of the audit work completed. The BOD may from time to time, request additional audits to be considered by the Audit Committee.
2. Planning for each audit should incorporate a specific program that covers the areas to be examined, procedures to be followed, and documents and or records to be tested.
3. Each Audit Report shall include sections describing the Purpose of the Audit; a Summary of the Testing Procedures employed; Audit Findings; Recommendations; Management Response, if applicable; and appropriate Supporting Schedules.
4. At the conclusion of each audit, the audit team shall review the Audit Report jointly with the affected department head or committee chairperson(s) and the General

Manager. Any disagreement by management regarding the audit findings and/or recommendations should be noted as part of the Management Response.

5. Following the audit review, the Audit Committee shall submit its report to the Board President, who shall submit the report to the Board and lead the Board through the resolution of any open issues.
6. All Audit Committee findings shall be held in the strictest confidence by the Committee until the Board of Directors has had the opportunity to review the final report.

E. Committee Meetings

All meetings of the Audit Committee shall be in compliance with RWA By-Laws, except that by adoption of this Committee Charter, the Board of Directors authorizes the Committee to conduct closed meetings for the following purposes: to consult with legal counsel when previously authorized by the Board of Directors; to discuss and consider ongoing audits, contracts, potential or pending litigation and matters involving violations of the declaration or rules and regulations adopted pursuant thereto for which a member, his family members, tenants, guests or other invitees are responsible; or discuss and consider the personal liability of members to the Association. The preceding criteria addresses subjects that may be discussed in closed session; however, these criteria for closed sessions are not to be interpreted as expanding the authority or jurisdiction of the Committee beyond that specified under Section III above. Attendance at a closed session shall be limited to the Audit Committee members and persons invited by the Committee to present information pertinent to the matter (s) before the Committee. The minutes of such closed sessions shall disclose all persons present.

All actions of, and conduct by, the Audit Committee shall be in strict compliance with RWA By-Laws, unless specifically prescribed otherwise by adoption of this charter by the RWA Board of Directors.

Committee Authorization Resolution Follows

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