

## APP VII – FINANCE COMMITTEE

Amended June 14, 2011; Amended June 12, 2018; Amended March 8, 2022; Amended March 11, 2025

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### A. Objective

1. To oversee and protect the financial health of the Association.
2. To set appropriate assessments for budgeted operating expenses and reserve contributions.

### B. Policy

1. The Board of Directors (Board) created the Finance Committee (Committee) as an advisory committee, limiting its authority to such matters as the Board may delegate to it.
2. The Chief Financial Officer (CFO) is the Committee Chair. The Board approves Committee members. The Kala Point Village Association's Board appoints an ex-officio voting member to the Committee.

3. The Committee is directed to review and approve all monthly, quarterly, and annual financial reports and submit reviewed financial reports to the Board quarterly and to the membership annually.
4. The Committee establishes practices and procedures necessary to accomplish the objectives set by the Board.
5. Board approval is required for all changes to the Committee's APP.
6. The Association will capitalize items where:
  - The asset value is \$5,000 or more.
  - The asset life exceeds five years.
7. Reserve
  - It is the goal of the Committee to maintain a reserve account balance sufficient to fund the association's expected capital expenses.
  - Expenditures over \$5,000:
    - A reserve expenditure is a capital project or asset with more than five years of useful life.
    - Multiple detailed bids must be presented to the Committee. The GM must provide sole source justification (per the GM's job description) if necessary.
  - Expenditures from the reserve accounts are limited to the amount allocated in the budget for the year unless recommended by the Committee and approved by the Board.
  - Unexpected capital expenses exceeding \$5,000 require prior approval by the CFO or other officer and subsequent referral to the Board for final approval.
8. The Board and Committee are responsible for ensuring the annual assessment is adequate to fund the annual operating and reserve expenses.
9. KPOA's reserve policy is reviewed annually by the Committee and by a professional firm once every three years.
10. Assessments charged to a particular class of ownership may be higher than those charged to the other classes based on the amenities' usage. In accordance with the settlement agreement between KPOA and KPVA dated February 5, 2001, the Finance Committee shall recommend, and the Board shall set Regular Assessments for two classes of ownership: 1) timeshare units, and 2) lots, homes, and condominiums. This agreement is based on a formula established by the accounting firm Moss-Adams on September 22 and October 23, 2003, as amended in 2011. The Moss-Adams agreement expired in 2008 but remains in effect unless challenged by one or both of the parties involved.
11. The Committee-proposes a resolution at the October Board meeting to permit the return of any surplus operating funds to the membership.
12. The Committee endeavors to minimize the income tax liability of the Kala Point Owner's Association (KPOA).

13. Committee meetings are held at least quarterly at the discretion of the CFO.
14. Funds held in a financial institution must be insured by the FDIC.
15. The Committee presents the budget to the membership in September.

## C. Procedure

### General

1. The Board Representative creates a Summary Report of the minutes and submits it to the Kala Pointer and to the Board before the next regular Board meeting.
2. The Secretary submits the approved minutes to the KPOA office.

### Account Reconciliation

Part of the Committee's oversight of KPOA's financial record is to verify that KPOA's record of balances with various financial institutions corresponds to the monthly statements issued by those institutions.

1. A member of the Committee who is not a signer on any account is designated to reconcile bank statements to general ledger balances.
2. A copy of the bank statements, balance sheets, and reconciliations prepared by the Bookkeeper and the General Manager is sent to the Committee's designated member before the Committee's monthly meeting.
3. The designated member reviews the records presented and prepares a report, verifying the accuracy of the reconciliation and highlighting any discrepancies.
4. This report is included in the monthly reports presented to the Committee.

### Monthly Financial Status Review

1. The Committee reviews financial reports as prepared by the GM.
2. Financial Statements for operations and for reserve are compared to the previous year and the annual budget.
3. The Committee reviews the status of assessments and collections for lots, homes, condos, and timeshares.
4. The CFO, or in his absence, the President, has sole authority to waive late fees and interest for a member.
5. Internal Control Committee (ICC) Representative reports to the Committee.
  - Status of documents and records reviewed since the last report.
  - Verification of insurance coverage.
  - Quarterly verification that payroll is correct, and payroll taxes have been paid promptly.
  - Verification that bank records show the current signatures of authorized individuals.
  - Recommendations for changes in policies and/or procedures.

6. The Committee reviews and recommends to the Board:
  - Charges for delinquent payment, liens, interest, and use of KPOA's facilities.
  - Special assessments or fees charged to a particular owner.
  - Other charges or fees applicable to non-owners.
  - Assessments for reconstruction, emergencies, and capital improvements.
7. The Committee reviews and recommends expenses such as Reconstruction, Emergency, and Capital Improvement Assessments to the Board as specified in the CC&Rs.

### Insurance

1. The Committee annually reviews insurance coverage, adequacy, and premiums with the GM.
2. The GM ensures new assets are covered when acquired.
3. The Committee reports insurance status annually to the Board.

### Property Disposal

1. The Committee reviews the GM's recommendation for property disposal and the proposed disposal method and makes recommendations to the Board.
2. After the sale or other disposal, the Committee verifies the asset's removal from the general ledger account and its removal from insurance coverage.
3. The GM prepares the Property Disposal Authorization Form for Committee review.

### Reporting

1. Financial reports are submitted to the Board at least quarterly and to the membership annually.

### Other

1. Address and resolve other relevant financial issues and policy matters.

### Operating Budget

The Committee is responsible for preparing and presenting operating and reserve budgets for the upcoming year to the membership before the October Board meeting.

1. In April, the Committee conducts a field trip to review proposed projects.
2. In May, the Committee establishes target goals for the upcoming year's budget. The CFO notifies each of KPOA's committee chairs to compile a line-item description of their anticipated needs and costs for the following year. This description is presented for the Committee's consideration by June 30.
3. In June, the Committee recommends a budget for total wages to the Personnel Committee.
4. The GM prepares proposed operations and reserve budgets for the upcoming year. The draft budgets are due by June 30.

5. The combined budget projections are made available to the Committee before their July meeting.
6. Proposed expenses by KPOA committees are reviewed. The committee may require additional justification.
7. The Committee reviews reserve expenditures for the upcoming year.
8. Projects may be deferred or removed, and projects requiring more immediate funding may also be considered.

### Reserve Budget

1. Good business practice and Washington State law encourage a Homeowner's Association to establish and maintain a financial reserve adequate "to fund major maintenance, repair, and replacement of common elements, including limited common elements that will require major maintenance, repair, or replacement within thirty years."
2. Funds from the reserve may be lent to the operating account as recommended by the Committee and at the discretion of the Board. Interest payments are required.
3. An annual reserve contribution amount, separate from that designated for operating budget purposes, is combined to make the total assessment billed to the members.
4. The Committee recommends annual assessments to the Board.
5. The CFO is responsible for managing the investment of operations and reserve funds in consultation with Committee members. The Board is apprised of such investments through the Committee's regular financial reports.

### External Audit

1. The association's financial statements must be audited annually by a certified public accountant.
2. The Committee and ICC obtain proposals from qualified, certified public accounting firms. In collaboration, the Committee and ICC members review the proposal(s) and recommend the audit firm to the Board.
3. The Committee and ICC are kept apprised of audit progress, meet with the external auditors as required, review audit findings and recommendations, and, if needed, prepare a response to the audit firm.
4. Report the status of the audit to the Board monthly.

### Reserve Study

Washington State law requires the association to update and prepare a reserve study each year and include it as a supplement to the operating and reserve budgets. An updated reserve study must be prepared at least every third year by a reserve study professional and based upon a visual site inspection conducted by the reserve study professional.

1. RCW 64.90.550 specifies reserve study contents and should be reviewed annually by the Committee.

### Income Tax

1. The CFO and GM ensure all relevant financial records are promptly submitted to the accounting firm preparing KPOA's taxes.
2. The Committee confirms that the accounting firm reviews the KPOA Simple IRA plan and that it meets the requirement of IRS Publication 560.
3. After completion by the accounting firm, at least one member reviews the tax return.
4. After this review, an officer of KPOA, preferably the CFO, reviews, signs, and mails the Association's tax return.
5. The Committee proposes a resolution at the October Board meeting to permit the return of any surplus operating funds to the membership.
6. KPOA will file IRS Form 1120-H to comply with the requirements of IRS Ruling 70-604.