

Porto Cima Townhouse Property Owners Association

Notes to Operating Report

1. **Basis of presentation** The financial statements of the Porto Cima Townhouse Property Owners Association are prepared on the accrual basis of accounting.
 - a. Liabilities are recognized as accounts payable when related goods are received, or services rendered and accepted.
 - b. Revenue is recorded as an account receivable when billed as determined annually by the Board of Directors.
 - c. Accounts receivable that are determined to be uncollectable are removed from the books and recorded as bad an uncollectable account of the related neighborhood when such determination is made.
 - d. Prepaid expenses are advances paid from time to time to contractors to fund the acquisition of material and provide working capital for specific projects. Any such advances are substantially less than the contract totals and are adjusted to actual project completion quantities at the completion of the related project.
 - e. Cash receipts and disbursements are recorded when accounts receivable are collected or payments are made against accounts payable.
 - f. The Association organizing documents require that all revenue, expenses and budgets be maintained by neighborhood within the Association.
 - g. Expenses and revenue not specifically identifiable to a neighborhood are allocated between the neighborhoods based on the relative number of residential units in each neighborhood.
 - h. From time to time a neighborhood equity reserve balance may temporarily reflect a deficit (expenditures to date exceeding revenues). In these instances, the Board may assess an interest charge to the deficit neighborhood and to the credit of other neighborhoods.
 - i. Budgeted amounts shown in financial statements other than annual statements are based on equal monthly pro-ration of annual budgeted expenses, and the portion of annual revenues scheduled to be billed through the date of the financial statement.
2. **Cash and Certificates of Deposit** Cash in excess of current operating needs is invested in Certificates of Deposit issued by various Banks and all accounts (including the operating checking account) are covered by Federal Deposit Insurance Corporation (FDIC) insurance.
3. **Budgeting** The Board prepares a budget of revenues required and expenses anticipated by neighborhood annually. These budgets are the basis of annual assessments. Unanticipated expenses that occur during the year are funded from the affected neighborhood's equity reserve balance.
4. **Internal Accounting Control** The Association's system of internal accounting control includes the following:
 - a. Accounts receivable are based on quarterly billings as determined and approved by the Board. The Board monitors collection of receivables at each meeting of the Board and appropriate action regarding any accounts past due is taken.
 - b. All expenses and other expenditures of the Association are approved prior to their being incurred.
 - c. Disbursement checks are prepared by the Association bookkeeper based on previously approved transactions and verification of the receipt of related goods or services. Each check is approved by 2 members of the Board. The Association Managers (General and Bookkeeper) are not authorized to execute any check or make any other disbursement from any account.
 - d. All bank accounts (as independently confirmed monthly by depository banks) are reconciled to the books and records of the Association each month.
5. **Designated Neighborhood Equity** In 2014 the Association commissioned a study to estimate future requirements for the maintenance, repair and replacement of major asset categories of the Association neighborhood structures. This study projected amounts that might be expected to be expended through 2044 for each of these asset categories. The Board has reviewed these projected amounts and determined that a portion of Neighborhood Equity should be designated to fund potential expenditures that may be required to maintain, repair and replace assets in each of these categories. These designations are based on amounts determined in the study referred to above, adjusted to reflect the Association's experience with maintaining these categories and financial resources available over the period of time since the original study preparation.
6. **Association Funding Policy** The Association's policy is to fund of maintenance, repair or replacement costs incurred, per incident, up to \$ 1,000 per incident, with Neighborhood Equity funds. To the extent that the total cost of any maintenance, repair or replacement incident exceeds \$ 1,000 Neighborhood Equity funds are used to fund of 25% of the remaining cost and 75% of the remaining cost is the responsibility of the property owner.