

Article XI – Attachment D – Accounting Procedures

Section 1. Tax Status

The State of Texas has approved HCEPOA as a non-profit property owners association and, as such, it is exempt from Texas State Franchise Tax by order of the State Comptroller.

- (a) HCEPOA is not a sales tax-exempt organization – it is subject to sales tax on purchases and any other taxes so invoiced by providers, e.g. utility taxes, etc.
- (b) HCEPOA is not exempt from U.S. Federal Taxes – However, there is a provision in the IRS regulations that allows HOAs to possibly be exempt from federal tax if they meet certain requirements. HCEPOA has met those requirements since its inception – but it is a year-by-year determination.
- (c) IRS Form 1120-H for HOAs lists income in two forms: exempt and non-exempt. If an HOA's income is 60% or more from exempt income, then it is not liable for federal income tax, even if it did not spend all of that income in the fiscal year being reported. Nearly 100% of HCEPOA's income is exempt income so it more than meets the requirements.
- (d) Exempt income is collections from members of the Association for purposes of meeting Association expenses, current and/or future. Non-exempt income would be from member and non-member sources such as fund-raising events.
- (e) IRS regulations also require that 90+% of the Association's expenditures for the current tax year must be for the maintenance of Association property, or for activities provided to or for the benefit of Association Members.

Section 2. Accounting

HCEPOA, along with other HOAs, is governed by the Financial Accounting Standards Board (FASB) approved GAAP-AICPA Audit and Accounting Guide for Property Owners Associations, also known as CIRAs (Community Interest Realty Associations), which covers HOAs, POAs, Condominiums, & Timeshare communities.

- (a) Chapter 1 of these Guidelines states, in part –
 - 1) *Users of Financial Statements – 1.33: The primary users of financial information of a CIRA are unit owners (or Association members – sic), whose periodic payments of assessments or carrying charges enable the CIRA to perform its functions. They are primarily interested in information that indicates whether assessments are used for their designated budgetary purposes, and whether adequate funds have been accumulated for future major repairs and*

replacements. Adequate financial reporting may assist owners in assessing the extent to which the CIRA is meeting its responsibilities to maintain common property.

- 2) *Users of Financial Statements – 1.34: Members of a CIRA’s Board of Directors need timely, comprehensive financial information to make financial decisions. Information on operating expenses and capital expenditures is a vital tool for identifying unusual trends in operating costs, and ultimately, in determining the assessments or carrying charges that a CIRA should collect from its members.*

(b) Specific requirements of these Guidelines are:

- 1) The accounting basis for the Association must be specified and cannot be changed without approval from the IRS. [HCEPOA is on a cash accounting basis and has been since its inception.]
- 2) Collections from Association members must be designated as being for current-year expenses or for a future-year expense (example: HCEPOA’s Road Reconstruction Reserve Fund, or RRRF).
- 3) Income received must be accounted for in the fiscal year in which it is intended to be used. Member assessments received prior to the new fiscal year are designated as “deferred income or revenue” and not booked until January 1 of the year for which it is being collected.
- 4) Income collected or designated for a future use (e.g. RRRF) must be kept separate from and its use accounted for separately from operating expenses and shown as such on financial reports and balance sheets.

Section 3. Texas Law

HCEPOA is governed by Texas Property Code, Chapter 209, Texas Residential Property Owners Protection Act, as are other HOAs, and the Board of Directors is responsible for ensuring compliance with all of its provisions.

Section 4. Procedures

The Treasurer shall:

- (a) Ensure that financial reports are prepared and provided to the Board of Directors in the form and timing desired. Expense Reports, P/L Reports and Balance Sheet Reports shall be provided within 15-20 days of the close of each quarter in the fiscal (calendar) year.
- (b) Track property ownership changes as they occur and ensure that HCEPOA records incorporate those changes.

- (c) Ensure that the yearly IRS Return is completed and filed per current regulations.
- (d) Manage the contractual relationship with the Bookkeeper and monitor their performance against the terms and conditions of the contract.
- (e) Maintain the Annual Maintenance Fund Charge Billing and Collection Procedure as set for in Attachment D of the HCEPOA By-Laws.

Annual Maintenance Fund – Billing & Collection

Section I. Annual Maintenance Fund.

HCEPOA Deed Restrictions, First Amendment, Section 19, relating to Annual Maintenance Fund Charges, stipulates certain provisions for said Charge. This Article explains the procedures for billing and collection of this Charge, particularly regarding owners who are delinquent in paying said Charge.

Section II. Reports.

Between October 15-November 1 of each year, the Treasurer presents 3QYTD financial report to Board of Directors (BoD). Combined with Committee Reports, the BoD determines the preliminary budget for the coming year, and decides what the AMF Charge will be (Note: Per DR Section 19, at this stage, the BoD can raise or lower the AMF Charge by up to 10%, subject to review & approval by the Membership at the next Annual Meeting – see Item 8 below.)

Section III. Owner Notices.

Between November 15-December 1 of each year, the bookkeeper sends an official notice via US mail and/or email to the owner of each “homesite” in HCEPOA of the amount and due date (January 1) for the Annual Maintenance Fund Charge (AMFC) for the coming year.

Section IV. Records Keeping.

Starting December 1, on an ongoing basis the bookkeeper logs all AMFC receipts, noting amount paid, postmark, check date and deposit date.

Section V. Second Owner Notice and Report.

In mid-January of the new year, the bookkeeper sends a 2nd notice – a reminder of the deadline to pay the AMFC (per Article 19 – January 31), noting the penalty for delinquency – via email, hand-delivered note or U.S. Mail as appropriate to the owner of each “homesite” who has not yet paid the AMFC. The Treasurer reports to the BoD the status of collections paid and not yet paid.

Section VI. Followup Owner Contact and Report.

In early February of the New Year, the Treasurer reports to the BoD the owners who are delinquent in paying their AMFC, and recommends possible actions to the Board regarding unpaid AMF, such as:

- (a) Personally contacting each delinquent owner to discuss reasons for non-payment,
- (b) Offering a payment plan to owners, depending on the circumstances,
- (c) Sending an official notice of delinquency to the owner of each “homesite” who has not paid their AMFC, and
- (d) Sending an official notice of penalty to any owners who paid late; that is, they sent a check for the correct amount, but the check date and/or postmark were after January 31.

Section VII. Further Collection Actions.

From mid-February and on an ongoing basis the New Year, the Treasurer continues to update the BoD on AMF collections. As appropriate, the Board considers if any additional action should be taken to collect delinquencies, other than filing a lien, which may already be in effect. According to the HCEPOA Deed Restrictions Section 19, the only other option may be filing a lawsuit through an attorney. The lawsuit would attempt to recover legal costs incurred by HCEPOA in filing and pursuing the lawsuit; such costs may be significantly higher than the outstanding AMFC.

Section VIII. Annual Meeting and Budget Review.

During the Annual Meeting, the date for which is set each year by the BoD, the Budget for the New Year is reviewed for approval by the Members in attendance. If changes are made, the impact on that year’s AMF is assessed and adjustments made to the collections, as appropriate.