DREAMLAND VILLA RETIREMENT COMMUNITY

Administrative Policy and Procedure

Subject: Budgets and Accounting
Adopted: 10/14/2020
Amended: 12/13/2022
Revised Completely: 8/8/2023

I. Policy Statement: The Other Comprehensive Bases of Accounting (OCBOA) method referred to as Modified Cash Basis of Accounting shall be used.

1. Revenue: Except as noted below, revenue shall be recorded when received. This accounting method does not typically use Accounts Receivable.

2. This accounting method requires that expenses be recorded when paid. This method does NOT accrue expenses or record unpaid expenses as accounts payable.

3. A detailed Accounting Standing Operating Procedures (SOP) shall be maintained for use by the Office and the Treasurer, detailing how all accounting activity shall be processed.

II. General Procedures:

1. Budget:

a. Operating budget: Documents next year's anticipated year's revenue and operating expenses. The budget shall be approved by the Board, prior to January 1st of the new calendar year. Total expenses are not to be budgeted in an amount greater than the total revenue. As long as total actual expenses are less than the budget's total expenses, line-item budget changes need not be approved.

b. Capital Expenditure Budget: Expenditures that shall be capitalized, as defined below, shall be approved by the Board prior to January 1st of the new calendar year

c. Actual and budgeted expenditures will be reviewed by the Treasurer monthly.

d. The budgets may be revised during the year if approved by the Board.

2. Revenue Recognition. Revenue to be recorded when money is received with a few exceptions:

a. Next year's annual fees received in the current calendar year shall be recorded as a deferred liability in the current year. At the beginning of the next year, the deferred liability annual fees shall be recognized as revenue.

b. Deposits for rentals, leases or other events/activities shall be recorded in the month the rental/activity occurs. If the money received is for a future month, the deposit shall be recorded as a deferred liability. All deposits shall be recorded as a deferred liability and shall be refunded from the deferred liability account.

c. QuickBooks, the current DVRC accounting system, records a credit card receipt as revenue and Undeposited Funds (a form of Accounts Receivable) if the bank has not yet shown the credit card transaction as a deposit.

d. Annual fee revenue and residential donations shall be recorded in DVRC's unique Property Management System (PMS) as well as in the QuickBooks accounting system. The PMS records each annual fee and donation by individual's name. Whereas, QuickBooks records the PMS batch total by revenue account, not by individual name.

e. Certain unique transaction may be recorded as Accounts Receivables. Such examples include refunds from the IRS or Arizona Department of Revenue or larger amounts of interest earned on a certificate of deposit.

3. Restricted Funds: DVRC's long established procedures recorded the receipt of funds received with restrictions as a deferred liability, recognizing the revenue when offsetting expenses were incurred. This revised procedure, officially change the past practice to comply with the requirements set forth by the Internal Revenue Service (IRS).

a. Definition: Nonprofits recognize donations in one of two categories: (1) without donor restrictions or (2) with donor restrictions.

(1) Contributions made to DRVC, without the donor making restrictions on how those funds may be used, shall be categorized as Unrestricted Donations. These funds are free from any external restrictions and available for general use. These types of donations or contributions may be used to pay DVRC's general operating expenses.

(2) Donations made with the donor placing restrictions on how and when the donations may be used are defined as restricted funds. At the time the donor makes the donation, the funds donated have donor-imposed restrictions that can be satisfied by the passage of a defined period of time or by performing defined activities (purpose restriction). These can be funds from a donation received to operate a specific program or project or individual contributions given with the intent of supporting a particular program or campaign.

(3). "Pass through" donations. These donations are not DVRC revenue. DVRC receives "pass through" donations that pass to the Posse, Health Services or DVRC's clubs and activities. These donations shall be recorded as deferred liabilities until disbursed.

b. Accounting:

(1) Upon receipt, all donations shall be recorded as revenue with the exception of "pass through" donations. Pass through donations shall be recorded as a deferred liability and periodically shall be paid to the appropriate entity.

(2) Upon receipt, unrestricted donations and donations to support keeping the Dreamland Villa Subdivision 55+ age-restricted shall be recorded in the appropriate revenue account and shall be assigned a unique "QuickBooks Class".

(3) Upon receipt, restricted donations, except "pass throughs", shall be recorded as Restricted Accounts Income and shall be assigned a specific "QuickBooks Class" to differentiate the donations.

(4) "QuickBooks Class": QuickBooks provides a unique method to track revenue and expenses by a specific project, activity facility, etc. Examples: all costs to maintain the two campuses shall be coded with the unique campus CLASS code. While the P & L will show the total electricity costs, a CLASS report may be run to show Farnsworth Hall's electricity costs separately from Read Hall. All Special Events revenue and expenses are totaled in a P & L control account, a CLASS report may be run to show a single event's revenue and detailed expenses.

4. Capitalized Expenditures (Assets):

a. Capitalized Expenditures shall be recorded for the acquisition of new Property, Plant, and Equipment (PP&E) having a useful life of more than one year and a cost of $2,500 or more. These costs shall include costs to place the item in service, including taxes or an expenditure of or for the betterment of existing PP&E. The funding source has no bearing on the recording of the expenditure as an asset.

b. Accumulated Depreciation and Depreciation expense shall be recorded when the annual IRS tax return is filed and in the amounts shown in the tax return.

c. Capital Reserve: This revised procedure discontinues the past practice of transferring ten percent (10%) of the annual fees to the Capital Reserve Fund Account. After the calendar year end, cash on hand resulting from annual revenue being greater than annual expenses may be transferred to the capital reserve account if approved by the Board.

5. Payment Processing:

a. DVRC checks require two DVRC director signatures to be valid.

b. Vender invoices – routine and recurring: whether paid online, electronically, credit card or by paper check shall be reviewed by a DVRC director. Examples: monthly utility bills and invoices for internet/telephone/website.

c. Vendor Invoices – non-recurring: the actual vendor invoice shall be approved, prior to payment, by the director who authorized the non-recurring purchase. Examples: Davis Pool, Home Depot, contractor work, special IT/computer support rendered on a non-recurring basis.

6. Reporting: DVRC's financial reporting will include: (1) balance sheet at the end of each month, (2) monthly and year-to-date Profit and Loss statement and (3) Statement of Capital Reserve account monthly cash flows. Other financial reports may be issued as deemed appropriate by the Treasurer or Board.

a. The Treasurer shall review for accuracy and consistency all financial reports prior to distribution, the details of the review shall be delineated in the Accounting Standard Operating Procedure.

b. Monthly financial reports shall be distributed (1) not later than the tenth (10th) of each month following the accounting period and (2) posted on the designated notification sites. The *Citizen* may have a "collapsed" version of the monthly financial statements.

c. Upon written request, all financial reports and the annual audit report shall be made available to the members in good standing.

7. The Treasurer is responsible for supervising the entire accounting activity. In additional the Treasurer shall ensure the accurate and timely preparation of the following:

a. Depreciation schedules: assure asset additions and deletions are recorded, useful life determined and entered, first and subsequent yearly depreciation calculated and entered, the current yearly depreciation and the yearend book value are calculated and the depreciation schedules tie into the related balance sheet accounts.

b. Annual income tax returns: (1) IRS Form 1099s[1] are issued to the appropriate vendors (2) DVRC expenses to offset the unrelated business income are identified and submitted to the CPA preparing the tax returns and (3) all questions are answered that are necessary to complete the IRS tax return forms,

[1] An IRS Form W9 must be received from new vendors paid more than $600 in a calendar year, subject to the criteria set forth by the IRS.

c. General liability and workers compensation audits.,

d. Arizona Corporation Commission’s annual reports.