Financial Policy
Hot Springs Village POA

1. General Financial Goals The general financial goals of this policy are:

a. To provide a financial base sufficient to sustain public utility services, to maintain the social well-being and physical conditions of the Hot Springs Village Property Owners Association (HSVPOA).

b. To be able to withstand local and regional economic trauma, to adjust to changes in the service requirements, and to respond to other changes as they affect the community.

c. To maintain an excellent credit rating in the financial community and assure property owners that HSVPOA is maintained in sound fiscal condition.

2. Operating Budget Policies

a. The base operating budget is the HSVPOA's comprehensive annual financial plan which provides for the desired level of HSVPOA services as defined by the HSVPOA Board of Directors' priorities. A budget will be developed annually using a "budgeting by priorities" process from a zero based budgeting perspective.

b. The goals of the Budgeting by Priorities process are:
- Align the budget with citizen priorities
- Measure progress towards priorities
- Get the best value for each revenue dollar
- Foster continuous learning in the HSVPOA management team.

c. "One-time" expenses require specific Board of Director approval to be carried forward into subsequent budgets.

d. Revenues and expenditures for the General Fund and all operating funds shall be projected for the annual budget from a zero based perspective.

e. Operating budgets should provide for design, construction, maintenance and replacement of the HSVPOA capital, plant, and equipment consistent with the HSVPOA Board Approved Capital Facilities Plan including the related cost for operating such new facilities. Each project is to be individually approved by the HSVPOA Board of Directors.

f. The HSVPOA will maintain all its assets at a level such that it protects the capital investment and minimizes future maintenance and replacement costs.

g. The HSVPOA management will develop an equipment replacement and maintenance needs analysis for the life cycle of the equipment and will update this projection every two years consistent with budget development. Management is encouraged to suggest alternative funding sources for these capital plans.

h. All general current operating expenditures will be paid from current revenues and cash carried over from the prior biennium, only to the extent that such funds are approved in advance by the HSVPOA Board of Directors.

   Reports on revenues and expenditures will be prepared and presented monthly to and reviewed quarterly by the HSVPOA Board of Directors during the year.

   The HSVPOA will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.

   The HSVPOA Board of Directors defines a balanced budget as current revenues (including unrestricted fund balances) are equal to or greater than current biennium budgeted expenditures.

   The HSVPOA will attempt to utilize beginning balances and other one-time revenues only for onetime/non-recurring expenditures.

i. All supplemental appropriations for programs (appropriations requested after the original budget is adopted) will be considered as a result of the availability of new revenues (such as unanticipated grants).

   All supplemental appropriations will conform to the “Budgeting by Priorities” process.

j. At no time, shall anyone except the HSVPOA acting as a whole, change the allocations of the budgets to any other configuration. Such activity will be deemed insubordination toward the direction of the Board of Directors and subject the individual perpetrating such an activity to immediate dismissal.

3. Revenue Policies

a. The HSVPOA management will strive to maintain as diversified and stable a revenue system as possible and to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.

b. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities, revenue estimates provided to the HSVPOA Board of Directors shall be conservative.

c. The HSVPOA will estimate its biennial revenues by an objective, analytical process using best practices as defined by Generally Accepted Accounting Principles.

d. The HSVPOA management will project revenues for the next six months and will update this projection every month. The Finance Department will review and make available to the Finance Committee an analysis of each potential major revenue source before going to the full Board for review.

e. The HSVPOA will establish all user charges at a level related to the cost of providing the service and within policy parameters established by the HSVPOA Board of Directors.

f. Annually, the HSVPOA committee structure will review user fees to adjust for the effects of inflation and other factors as appropriate and make recommendations of such to the Board of Directors. The HSVPOA Board of Directors will set fees for user activities, such as recreational services, at a level to support the direct and indirect costs of the activity in accordance with cost recovery policies adopted by Board of Directors.

g. The HSVPOA Board of Directors will set fees and user charges for each enterprise fund, such as Utilities, at a level that fully supports the total direct and indirect cost of the activity including the cost of annual depreciation of capital assets. Additionally, for analysis and rate modeling purposes, the proposed rates shall also take into account debt service coverage commitments made by the HSVPOA of 1.2 times annual debt service.

4. Expenditure Policies

a. The HSVPOA budget will provide for a sustainable level of service as defined in the context of the Budgeting by Priorities process.

b. The HSVPOA operating budget will not use one-time revenues to support ongoing expenditures.

c. The HSVPOA will maintain expenditure categories according to state statute and Capital expenditures shall meet the requirements of generally accepted accounting principles (GAAP).

d. The HSVPOA Board of Directors will structure service levels in the context of financial sustainability.

e. The HSVPOA management will forecast its General Fund expenditures for the next five years. The drivers and assumptions used in the forecast will be described.

f. A cost allocation plan will be developed and incorporated into the HSVPOA budget. The cost allocation plan will be the basis for distribution of general costs to other funds or capital projects (also known as indirect costs).

g. Prior to release, all checks exceeding $5,000, except as specified herein, must be co-signed by one of the following individuals in addition to the CEO/GM of the organization:

   a. Board of Directors Chairperson,

   b. Corporate Secretary

   c. Corporate Treasurer

h. Exceptions to the requirement of point 4g. above are the following:

   a. Legal payments to the US Government, State of Arkansas or the Counties in which HSV is located for the payment of sales and use, real estate and such other legal taxes as may be mandated by the laws of the government agencies.

   b. Electrical and utility payments to outside third parties who provide such service under a long term agreement that was properly approved as outlined above or as approved by the actions of the Board of Directors acting as a whole.

   c. Licenses and Fees mandated by the government agencies noted above for the operation of the various amenities within the POA structure. These licenses and fees must be required according to statute and are an affirmative obligation of the POA for its stated legal purpose.

5. Capital Investment Budget Policies

a. The HSVPOA will make capital improvements in accordance with an adopted capital improvement program after the approval of each capital project individually and in accordance with the terms and conditions of the HSVPOA Purchasing procedure.

b. The Capital Program and the base operating budget will be reviewed at the same time to ensure that the City's capital and operating needs are balanced with each other and that the Capital Program is aligned with the City's other long-range plans. Each Capital Program project will be individually approved by the HSVPOA Board of Directors prior to the start of any Capital Program.

c. Expenditures of capital funds shall only be authorized when the expenditure is for a project that is specifically and individually approved by the Board of Directors. No delegation of authority is approved for any capital expenditure not specifically voted upon and approved by the Board of Directors except as outlined in Paragraph 5f herein. The Board may, at their sole discretion, approve such items as part of a consent agenda or they may require discussion of the capital items individually.

d. Approval of capital expenditures shall be by a formal approval of a Request for Authorization (RFA) document that will be completed by the POA staff and presented to the Board of Directors monthly for their consideration. The RFA shall be supported with a Return on Investment analysis for all capital requests exceeding $25,000. All RFA requests must comply with all conditions of paragraphs 6 and 7 herein. Such support documentation shall be included with the RFA to fully justify the project and the dollar amount requested.

e. All capital projects shall have a minimum capital expenditure of at least $5000 per item or per project where the project is a complete unit and a life span of at least three years or substantially improve the life of the asset by three or more years.

f. Depreciation schedules shall be established in consultation with the audit firm then in service to the POA. Any changes to the depreciation and/or capitalization schedules shall require a restatement of at least three years of prior Financials for comparison purposes.

g. In the event of an emergency in which the preservation of life or protection of the POA or member assets are concerned, the management of the POA may take such actions as are necessary to achieve such preservation of life and/or protection of assets. Within 24 hours, the CEO/GM of the POA will draft a detailed explanation of the incident, cause of the action taken, details of the action taken as well as the costs incurred and submit such documentation to the Chairperson of the Board of Directors and the Corporate Treasurer. In such an event, the Chairperson of the Board of Directors and the Corporate Treasurer must each affirm receipt of the documentation outlined above and provide a response as to their affirmation of the action taken or any questions that may have come from the decisions and actions of the staff.

h. The HSVPOA management will develop a five-year plan for capital improvements including operations and maintenance costs and update it every biennium. Capital expenditures will be forecasted taking into account changes in population, changes in real estate development, or changes in relevant economic condition of the HSVPOA and the region.

i. The HSVPOA management will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Board of Directors for approval.

j. The HSVPOA will determine the least costly financing method for all new projects.

k. The HSVPOA will transfer, annually, at least five percent (5%) of General Fund revenues (excluding development and significant one-time revenues), available one-time money and the pavement management contribution to the Capital Program.

l. Capital investment revenues collected from the five percent (5%) or more General Fund transfer and real estate excise tax will be split by percentage into three capital investment areas – Member Recreation amenities twenty-five percent (25%); Roads and Utilities fifty-five percent (55%) and General Projects (including Fire and Police) twenty percent (20%).

m. The HSVPOA will utilize the Finance Committee to advise the HSVPOA on expenditures of capital funds.

6. Short-Term Debt Policies

a. Short-term debt is defined as a period of three years or less.

b. The HSVPOA may use short-term debt to cover temporary cash flow shortages, which may be caused by a delay in receipting revenues or issuing long-term debt but only with the specific approval of the HSVPOA Board of Directors. The HSVPOA will not use short-term debt for current operations.

c. The HSVPOA may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. All interfund short-term borrowing will be subject to HSVPOA Board of Directors approval by resolution and will bear interest based upon prevailing rates.

7. Long-Term Debt Policies

a. **Long Term debt is that debt which exceeds three years.**

b. The HSVPOA will utilize long-term borrowing for capital improvements that cannot reasonably be financed on a pay-as-you-go basis from anticipated cash flows.

c. Acceptable uses of financing proceeds are items which can be capitalized and depreciated. Refunding designed to restructure currently outstanding debt is also an acceptable use of financing proceeds provided that the net present value (NPV) of savings is at least four percent (4%).

d. The HSVPOA will not use long-term debt for current operations.

e. The HSVPOA will maintain good communications with banks and agencies about its financial condition. The HSVPOA will follow a policy of full disclosure on every financial report and prospectus including proactive compliance with disclosure to the secondary market.

f. General Obligation Financing Policy

   1. Every project proposed for financing through general obligation debt shall be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

   2. Financing cannot be incurred for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.

h. Limited General Obligation Policies

   1. As a precondition to the issuance of any financing, alternative methods of financing should also be examined.

   2. Financing should only be issued under certain conditions:

      - A project requires monies not available from alternative sources;
      - Matching fund monies are available which may be lost if not applied for in a timely manner; or
      - Catastrophic conditions.

i. Financing of Lease Purchases

   1. Lease purchase financing may be used when the cost of borrowing or other factors make it in the HSVPOA best interest and the asset is appreciating at or about the rate of the interest on the financing.

8. Reserve Fund Policies

a. The HSVPOA will maintain General Operating Reserves at a level equal to at least 25% of the total General Fund budgeted revenue. This level of reserves must be achieved by 2024 with significant progress demonstrated every year until then.

b. These reserves shall be created and maintained to:

   1. Provide sufficient cash flow to meet daily financial needs.

2. Sustain HSVPOA services in the event of a catastrophic event such as a natural/manmade disaster (e.g. earthquake, windstorm, flood, terrorist attack) or a major downturn in the economy.

In general, the HSVPOA shall endeavor to support ongoing operations with ongoing revenues, but may use reserves on a one-time basis to support HSVPOA services pending the development of a longer term financial solution. However, in no event shall reserves be used longer than one year to support HSVPOA operations and must have the approval of the HSVPOA Board of Directors. If reserves are used, the HSVPOA will begin to replenish these reserves at the end of the current budget year if a surplus exists, but no later than June of the year following their use.

b. Annual surpluses in the General Fund will be used to fund one-time operations and capital expenditures, dedicated to the Capital Improvement Program or placed in an economic contingency account if:

1. There are surplus balances remaining after all current expenditure obligations and reserve requirements are met.

2. The HSVPOA has made a determination that revenues for the ensuing fiscal year are sufficient to support budgeted General Fund operations.

c. A surplus is defined as the difference between the actual beginning fund balance and the budgeted beginning fund balance. It consists of under-expenditures and excess revenues over and above the amounts included in the following biennial budget.

d. The HSVPOA may also maintain, at its discretion, a Contingency to serve as a hedge against economic fluctuations, fund future one-time operational and capital needs or support HSVPOA services on a one-time basis pending the development of a longer term financial solution. The source of funding for this reserve is the annual surplus as outlined in sections 8b and 8c above. Restoration of this reserve is at the HSVPOA Board's discretion.

e. The HSVPOA will maintain operating reserves equal to one year's funding for the Utilities Funds.

f. The operating reserve shall be created and maintained to provide sufficient cash flow to meet daily financial needs and will be based upon total operating expenses. For budgeting purposes, operating expenses will be calculated upon the funds' total expense budgets excluding ending fund balances, capital purchases, and the current year's portion of principal paid on outstanding debt.

g. In order to maintain the significant investments in utility capital assets there shall be a transfer from the utility operations funds to the utility capital project or reserve funds to be expended on future utility capital projects. The transfer will be calculated on the current year's depreciation expense, less the annual principal payments on outstanding debt.

h. The HSVPOA will establish a revenue stabilization fund for the Water and Wastewater utilities. The required fund balance shall be set at 15% of the total of water and wastewater revenues collected through monthly rates excluding the portion of monthly revenues for HSVPOA wastewater treatment. Monies may be withdrawn from the revenue stabilization funds to supplement operating revenues in years of revenue shortfalls caused by reduced sales due to weather or restrictions on water use. The revenue stabilization funds will be replenished within four years of a withdrawal.

i. The HSVPOA shall additionally maintain the following Equipment Replacement Reserve Funds:

   1. Fleet Maintenance Reserve;
   2. Fire Equipment Reserve; and
   3. Capital Equipment Reserve for general asset replacement.

   The Equipment Reserve Funds will be maintained at a level sufficient to meet scheduled equipment replacement so as to sustain an acceptable level of municipal services and prevent a physical deterioration of HSVPOA assets.

9. Investment Policies

The CFO/Financial Services Manager will annually submit an investment policy to the HSVPOA Finance Committee for review. This committee will make a recommendation to the Board of Directors on whether to approve the policy.

10. Accounting, Auditing, and Financial Reporting Policies

a. The HSVPOA will establish and maintain a high standard of internal controls and accounting practices. The HSVPOA accounts for revenues and expenditures on a modified accrual basis.

b. The accounting system will maintain records on a basis consistent with GAAP.

c. Regular monthly and annual financial reports will present a summary of financial activity by major types of funds and by month. Such reports will be submitted to the Board of Directors each month and then they shall be available via the HSVPOA website.

d. The annual financial report shall conform to Generally Accepted Accounting Principles and be in a form reviewed by the Finance Committee and approved by the Board of Directors.

e. A fixed asset system will be maintained to identify all HSVPOA assets, their location, and their condition.

f. The HSVPOA management will ensure that HSVPOA records are audited annually and which will result in the issuance of a financial opinion. The results of such audit are to be available to the public via the HSVPOA website.

g. The selection of the auditor will be done in compliance with the HSVPOA Procurement Policy as adopted.

11. Budget Calendar

a. In order to facilitate and implement the budget process, the HSVPOA management will propose an annual budget calendar at the first regular Board meeting in March every year.

b. The calendar will be comprehensive in nature and generally provide for zero based budgeting and include the participation and recommendations of the department managers of the HSVPOA.