

Porto Cima Townhome Property Owners Association
Notes to Financial Statements

1. **Basis of presentation** The financial statements of the Porto Cima Townhome 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 takes appropriate action regarding any accounts past due.
 - b. All expenses and other expenditures of the Association are approved by the Board prior to their being incurred.
 - c. Disbursement checks are prepared by the Association Administrative Manager based on previously approved transactions and verification of the receipt of related goods or services. Each check is signed by 2 members of the Board. The Association Managers (General and Administrative) 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.