

BALD HEAD ASSOCIATION
FINANCIAL POLICIES AND PROCEDURES
AS OF DECEMBER 19, 2025

The following items govern routine handling of Association disbursements/payments, financial reporting and recordkeeping. This policy was originally approved by the Bald Head Association (BHA) Board on October 20, 2001, as an item of the regularly scheduled Board meeting. A revision was approved by the Board at its July 8, 2011, regular meeting. A second revision was approved by the Board at its August 13, 2021, regular meeting. A third revision was approved by the Board at its April 26, 2024, regular meeting. A fourth revision was approved by the Board December 19, 2025.

Accounting Procedures

The accounting procedures used by BHA shall conform to Generally Accepted Accounting Principles (GAAP) to ensure accuracy of information and compliance with external standards.

Basis of Accounting Policy and Procedures

BHA's fiscal year begins on January 1st and ends December 31st. Throughout the year, BHA uses the **cash basis of accounting**. This method records income when cash is received and expenses when cash is paid out, providing a clear, real-time view of cash flow.

The accrual basis is the method of accounting required by Generally Accepted Accounting Principles (GAAP) for annual statements, whereby revenue and expenses are identified with specific periods of time, regardless of the date of receipt or payment of cash.

Throughout the fiscal year, all transactions are recorded solely on a cash basis. The monthly books are closed no later than the 20th of the following month (or the prior business day if the 20th falls on a weekend).

At the close of the fiscal year, this rule is adjusted. Year-end books are closed no later than 60 days after the end of the fiscal year to accommodate **accrual "true-up" adjustments**. This process converts the internal cash-basis statements to the accrual basis for GAAP compliance. All appropriate revenues that were earned but not received (Accounts Receivable) and all expenses that were incurred but not paid (Accounts Payable) are recorded to ensure that year-end financial statements reflect all BHA activities for that specific fiscal year.

BHA uses financial accounting software, to keep its books and a contracted CPA to assist with any necessary GAAP compliance throughout the year.

Annual Audit

As per the Association's governing documents, an audit must be conducted by a Certified

Public Accountant (CPA) annually at the end of the Association's calendar year. The Executive Director will deliver the accounting records to the CPA for the audit promptly after closing the previous years' books. Annual audit should be made available by Auditor no later than the end of the 2nd quarter.

The Certified Public Accountant will be chosen by the Association Board every four year through an RFP (Request For Proposal) process submitted to at least three Certified Public

Accountants and/or firms and may include incumbent Certified Public Accountant and/or firm. Or, if the existing audit firm is retained, the auditing team within their firm must change. This will ensure continual evaluation of performance and review of audit costs.

Budget

The budget will be prepared annually by the Treasurer and the Executive Director and will be reviewed by the Finance Committee. The proposed budget will be submitted to the Board for review by its October Board meeting, with Board final approval obtained at the November Board meeting of the fiscal year.

Disbursements

Access to bank accounts and checks, either physical or online, is limited to the Executive Director and Bookkeeper.

All checks signed on behalf of the Association over \$1,000 in amount will require two approvals, unless the disbursement is for an active contract, and one of these approvals shall be the Treasurer, except that, in the absence of the Treasurer, another authorized Board member may fulfill the requirement of the second approval. The Executive Director shall be authorized to approve disbursements for active contracts and all other disbursements up to or under \$1,000. Changes to bank signature authorization will be recorded in the Board minutes as these changes occur.

Reimbursements to BHA employees, volunteers, Board members or officers will require a second approval if over \$100,. If the reimbursement is made to a Board member, another Board member must approve.

No Board member, member or committee may incur a cost to BHA, including purchases or services, without prior approval of the Treasurer or President. Committee chairs are permitted to authorize expenditures within their budget limits.

Disclosure

Any member of BHA is permitted to review the books of BHA in the company of the Executive Director or the Treasurer. Such a request must be made, in writing, with a reasonable advance of time.

Payments/Deposits

Checks will be received by the Association Accounting staff and entered into the accounting software system. Assessments will be matched/reconciled with the assessment database. All other checks will be received via the accounting software general ledger system. Deposits under \$2,000 in total will be made weekly. Deposits over \$2,000 must be made within two business days. There will always be a deposit done at the end of every month, regardless of the amount of the deposit.

Reports

Monthly financial reports will be given to the Treasurer or the Assistant Treasurer, who will review and return them in a timely manner to the Executive Director. Upon request, Executive Director shall provide reports to include; payroll liability, payroll detail and deduction detail reports, the general ledger posting report that matches the payroll reports, bank statements and company accounting software reconciliations.

The Board will be provided, prior to their monthly work session, a copy of current aging, balance sheet, actual versus budget, and profit and loss statement. Given the adoption of the new accounting software in December 2025, , a Board disbursement approval log will be made available upon request. The Board approval log within financial accounting software, takes the place of the Board check signature required prior to the implementation of financial accounting software.

Cash and Investments

Cash balances held at banks shall be managed and diversified in a way to take full advantage of FDIC or SPIC insurance whenever possible.

Investment of excess operating cash or cash reserve balances shall be made when appropriate for periods of no longer than one year and shall be invested in securities with a rating of AA- by Standard and Poors or equivalent by other major rating investor services better or shall be FDIC insured.

Contracts and Bids

The Executive Director is authorized to enter contracts for activities that have been approved by the Board as part of budgets or plans. The Board of Directors must authorize any contracts outside of these parameters and all contracts with an annual financial value greater than \$15,000.

The Executive Director may not make contractual commitments for bank loans, corporate credit cards, or for real estate leases or purchases without specific approval of the Board.

Asset Protection

In order to ensure that the assets of BHA are adequately protected and maintained, the Executive Director shall:

Insure against theft and casualty losses to the organization and against liability losses to Board members, staff, or the organization itself to levels indicated in consultation with suitable professional resources.

Plan and carry out suitable protection and maintenance of property, building and equipment.

Avoid actions that would expose the organization, its Board, or its staff to claims of liability.

Protect intellectual property, information, and files from unauthorized access tampering, loss, or significant damage.

Receive, process, and disburse funds under controls that are sufficient to maintain basic segregation of duties to protect bank accounts, income receipts and payments.

Annually recommend an appropriate asset reserve policy, procedure and funding to be approved by the Board of Directors, as part of the annual budget process.

Obtain Board approval for all unbudgeted reserve expenditures.

Reserve funds shall be moved from reserve savings account to operating bank account in the fiscal year when the reserve expenses are budgeted.

Delinquent assessments will be charged a late fee not exceeding the greater of \$20 per month or 10% of the unpaid assessment installment, along with interest not exceeding 18% per year. BHA follows the late fee structure established by the North Carolina Planned Community Act.

1. **Demand letter:** If the account remains unpaid 30 days after the initial due date, BHA will send a formal letter requesting payment along with a phone call to the member. If the account remains unpaid after 60 days BHA will issue a second letter. If the account remains unpaid 90 days after initial due date the account will be referred to the BHA's legal counsel. Legal counsel will send a formal demand letter to the homeowner detailing the full amount owed, including

all fees and costs.

2. **Payment plans:** At any point before a lien is filed, a delinquent homeowner may request a payment plan. The Executive Director will have the discretion to approve reasonable payment plans based on criteria defined by the board. Payment plans will be documented in writing and require the homeowner to remain current on all future assessments.
3. **Filing a lien:** If no resolution is reached after the demand letter, legal counsel will be authorized to file a lien against the homeowner's property. The homeowner will be responsible for all costs associated with preparing and recording the lien.
4. **Pursuit of judgment and foreclosure:** If the lien and demand letter do not result in payment, the board, upon recommendation from legal counsel, may authorize legal action, including filing a personal lawsuit or initiating foreclosure proceedings, to recover the amounts owed.
5. **Outsourcing collections:** The board may choose to refer severely delinquent accounts to a third-party collection agency or pursue legal action, as determined to be most effective.

Procedure for write-offs

1. **Review for write-off:** The Board of Directors will review all delinquent accounts annually to determine their collectability, consulting with the association's CPA and attorney.
2. **Criteria for write-off:** An account will be deemed uncollectible and considered for a write-off under the following circumstances:
 - a. The homeowner has filed for bankruptcy, and the debt has been discharged by the court.
 - b. The association has exhausted all legal remedies, and the debt remains unrecoverable (e.g., statute of limitations has expired).
 - c. The homeowner has abandoned the property, and there are no reasonable means of collecting the debt.
 - d. Legal counsel has advised that the debt is not legally recoverable.
3. **Board approval:** The write-off of any uncollectible account must be approved by a formal board resolution and documented in the official board minutes.
4. **Accounting treatment:** When an account is written off, the contracted CPA of the Association will record the adjustment in accordance with Generally Accepted Accounting Principles

(GAAP). The debt will be expensed as "Bad Debt" and removed from the accounts receivable.

5. **Record keeping and potential future recovery:** Even after a write-off, the association will maintain records of the debt. If any portion of a previously written-off debt is later collected, it will be recognized as income in the year collected.

Financial Transactions with Insiders

No advances of funds to employees, officers, or directors are authorized. Direct and necessary expenses related to carrying out responsibilities shall be reimbursed.

In no case will BHA borrow funds from any employee officer, or director of the organization without specific authorization from the Board of Directors.

The Board of Directors and all employees will complete a conflict-of-interest disclosure form at the beginning of each year. Any additional potential conflicts shall be disclosed as they arise.

Gift Acceptance

Employee – Other than food items given for use by all employees, an employee shall not accept gifts in excess of \$25 without the prior approval from the Executive Director or Board of Directors.

Donations to Bald Head Association – Donations shall require prior approval from the Board of Directors.