

Canterwood STEP System Association  
**FINANCIAL POLICIES**

**I. Introduction**

This document outlines the financial policies of the Canterwood STEP System Association (STEP). The administration of, and compliance with, these policies is the responsibility of the elected Board of Directors (Board). These policies are subject to revision over time as circumstances dictate. Deviations from these policies, whether intentional or otherwise, should be documented sufficiently in the STEP's records to explain and justify such deviations whenever they occur. The specific policies which follow may paraphrase certain provisions of the STEP's Bylaws and Covenants, Conditions & Restrictions (CC&Rs) and they are not intended to be all-inclusive.

**II. Authority**

These financial policies are authorized by the applicable sections of the Bylaws and CC&Rs, and, more generally, by the broad powers granted to Boards of Directors under RCW 24.03, et al.

**III. General Financial Policies**

1. The Board and the representatives of the STEP's Accounting Services Agent will strive to comply fully with all fiscal practices and rules outlined in detail in the Bylaws and CC&Rs. Appropriate accounting procedures will be used to record all business activities and accurately prepare financial statements and reports.
2. The Board will establish member assessments, connection fees and other sources of income sufficient to ensure that all operating expenses and other financial obligations of the STEP are met as they become due and payable.
3. The Board will endeavor to control costs and expenditures in order to keep annual member assessments as low as possible while ensuring effective, legally compliant, and healthy and safe STEP operations on a continuous basis.
4. The Accounting Services Agent will compute the member assessments pursuant to the directives of the Board. The Accounting Services Agent will bill all members for regular assessments on a bi-monthly basis to help reduce administrative costs and to coincide with the bi-monthly invoices for sewage treatment from the City of Gig Harbor. The assessment amount charged to each member for each billing cycle will be uniform pursuant to Article V, Section 5.3, of the CC&Rs, although total billing amounts may vary from site to site (or member to member) due to one-time charges (such as connection fees) or other fees (such as late fees, interest or collection costs).
5. The Board will endeavor to ensure that a sufficient portion of member assessments are earmarked as replacement reserves to fund major repairs and additions to or replacements of system capital assets.
6. The Board will only impose special assessments on members in cases of emergency or fiscal urgency that are beyond the scope and purpose of normal operations or replacement reserve practices.

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7. The STEP's financial statements will be prepared on a monthly basis by the Accounting Services Agent in accordance with generally accepted accounting principles. At a minimum, the monthly financial statements will consist of a Balance Sheet, Statement of Income and Expenses, Statement of Income and Expense Variances, Bank Reconciliation, and Accounts Receivable Aging Report. These statements and reports will be prepared on a timely basis. Furthermore, they will contain sufficient details to permit the Board to make informed fiscal decisions at all times.
8. The STEP's calendar year-end federal tax return will be prepared by a licensed certified public accountant. The tax return should be completed and filed as soon after the end of each calendar year as is reasonably practicable. The Board will also engage an independent public accountant to conduct an audit of the STEP's annual financial statements and accounts if deemed warranted by the Board or so requested by a STEP member.
9. The Board will award contracts and hire vendors and consultants based on the lowest responsible bids or lowest competitive prices whenever possible. If deemed practicable, the Board will seek competitive bids for professional and other services rendered on the STEP's behalf. All decisions by the Board concerning contracts and large dollar expenditures should be documented in the STEP's financial records and Board meeting minutes.

**IV. Cash Management Policies**

1. The Board will manage the STEP's cash and investment assets in a prudent and fiscally responsible manner at all times. A member of the Board will sign all checks and all investments will be authorized by the Board. All bank accounts will be reconciled monthly by the Accounting Services Agent and differences, if any, will be documented and explained to the Board.
2. The STEP must collect sufficient monies from members to cover its bills and other financial obligations at all times. Care will be taken by the Board and the Accounting Services Agent, using budgeting and cash management techniques, to ensure that sufficient funds are always available to effectively and efficiently manage the STEP's day to day operations. Amounts collected from members will be managed in a prudent manner and will be used solely for legitimate STEP business purposes.
3. The STEP's bank and investment accounts may hold large sums of monies pending disbursement for operating or capital needs. The Board will attempt to maximize the yields on all monies on hand so long as the funds are adequately protected and are readily available whenever needed utilizing the following guidelines:

**Investment Objectives (in order of priority):**

1. Safety and preservation of Principal
2. Sufficiency of Liquidity to ensure that funds are available when needed without penalty
3. Maximization of Yields

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**Acceptable Investments:**

U.S. Treasury Securities  
Certificates of Deposits  
Monet Market Funds/ Sweep vehicles

**Investment Institutions Utilized:**

1. Must be Federally Insured (FDIC) (SIPC)
2. Should offer convenient, cost-effective banking and investment services
3. May be based out-of-state so long as safety and yields are not compromised

**Maturity Parameters:**

Maximum maturity/demand feature/average life: 3 years maximum  
If practicable, mix maturities (laddering) for flexibility while maximizing average yields

**V. Replacement Reserve Policies**

The Board will, from time to time, determine amounts to be collected from members and earmarked to cover major maintenance costs (\$5000 or more), as well as additions to and replacements of system capital assets. The Accounting Services Agent will bill and account for such monies using appropriate accounting practices. The Board may elect to have replacement reserve studies conducted periodically by qualified consultants. The results of such studies may serve as a basis for the establishment of minimal replacement reserve levels, although the Board has full discretion when setting reserve requirements and in the use of such funds.

**VI. Collection Policies**

The Board will be pro-active in pursuing the collection of delinquent member assessments. The Accounting Services Agent will issue a monthly report of delinquent accounts receivables to the Board. Members with amounts in arrears shall be notified by: (1) notice of delinquent balances on subsequent bi-monthly billings and the imposition of interest charges, late fees or collection costs applied on amounts in arrears pursuant to CC&Rs section V, and (2) letter(s) of notice of delinquent account from the Board, Accounting Services Agent or an authorized collection agent, as appropriate. Prolonged and unsuccessful efforts to collect amounts in arrears from members using the aforementioned methods will result in the use of other collection methods, including, but not limited to: garnishment of member wages, the filing of liens on members' property and litigation.

**VII. Budget Policies**

The Board will, with the assistance of the Accounting Services Agent, prepare an annual budget for the next calendar year in advance of the start of said next year.

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The annual budget will be developed using the current year's financial results and other factors as deemed applicable. Ideally, the new budget (and other relevant business matters) should be presented to the members of the STEP at the annual membership meeting preceding such year so that it can be ratified at that time. The Board reserves the right to modify any adopted budget at any time due to fiscal circumstances that may arise.

The aforementioned financial policies are approved:

President: \_\_\_\_\_

Vice-President: \_\_\_\_\_

Secretary: \_\_\_\_\_

Co-Treasurer: \_\_\_\_\_

Co-Treasurer: \_\_\_\_\_

Date: October 6, 2011