

CHAPTER FOUR - Section 04.02A
FINANCIAL MANAGEMENT POLICY

Date:	January 1, 1984
Amended:	September 24, 1987
Amended:	October 1, 1987
Amended:	November 21, 1988
Amended:	August 31, 1994
Amended:	September 26, 2002
Amended:	September 28, 2006
Amended:	October 26, 2006
Proposed:	November 19, 2009

I. POLICY

It is the policy of the LMOA Board of Directors to provide and approve written guidelines in accordance with standards established by the American Institute for Certified Public Accountants (AICPA) as specified for Common Interest Realty Associations (CIRAs) for the accounting system of the Association and to establish proper financial management policies to deal with the operations of the Association and all Association owned amenities, facilities and common areas.

II. APPLICATION

The following financial framework for operations of the LMOA is established:

- A. ANNUAL DUES - Property Owner dues are a levy upon each property owner as a share of maintaining the community facilities as a whole.
- B. AMENITY AND USER FEES - User fees/price structures are established by the Board of Directors for amenities during the budget process. A primary goal is that user fees for an amenity should be established at a level that would recover at least 100% of the operating costs for that amenity.
- C. IMPROVED PROPERTY FEE - An Improved Property Fee is levied against each improved property to cover such costs as trash collection, recycling, snow removal, and other expenses associated with improved lots that the Board of Directors may designate. This fee is in addition to the property owner dues.
- D. OTHER FEES AND ASSESSMENTS
 - 1. The Board of Directors is authorized, subject to approval by the membership, to levy a special assessment for maintenance and upkeep, including capital expenditures, of the common areas.
 - 2. PROPERTY TRANSFER FEE - Effective August 1, 2002, a Property Transfer Fee shall be imposed on the Purchaser, upon the transfer of any lot or Marina Point unit. Such fee shall be administered in accordance with Article 8, Section 8.03, of the Lake Monticello Owners' Association Bylaws.
 - 3. The Board of Directors may establish other fees as appropriate.
- E. CLASSIFICATION OF INCOME AND COSTS - All income and costs shall be properly identified to the cost center and the line item where the income or cost was generated. The cost center structure shall, at a minimum, parallel the organizational structure approved by

the Board of Directors. Where changes to cost centers or account classifications become necessary, the financial records shall provide for proper tracking of the changes.

- F. **COMPONENTS OF COST** - The operating costs for each department or activity include all costs directly or indirectly identifiable to that cost center.
- G. **TYPES OF EXPENDITURES** - The following distinctions in types of expenditures are made for the sole purpose of assisting the Board, committees, members and staff in managing and monitoring the financial resources of the Association. An expenditure of Association funds is classified into one of three categories:
 - 1. **OPERATING COSTS** are the routine and ordinary costs and expenses of operating the Association and its amenities on a day to day basis.
 - 2. **CAPITAL PROJECTS** are initiatives that include either new initiatives or Reserve Plan items that add to or substantially improve the amenities, facilities or common areas of the Association. A capital project does not necessarily mean the project is depreciable. However, whether depreciable or not, adequate reserves must be established for all capital projects. (See Reserve Plan Funds below, H.1.a.)
 - a. **NEW INITIATIVES** are new or expanded amenities, facilities or common areas.
 - b. **MAJOR REPAIRS AND REPLACEMENTS** are initiatives beyond routine maintenance and repair that are made to maintain or replace the assets of the Association.
- H. **RESERVE FUNDS AND RESTRICTED ACCOUNTS**
 - 1. **RESERVED FUNDS** are monies set aside from general revenue to be used for the purpose for which the specific fund is established.
 - a. **RESERVE PLAN FUNDS:** The Reserve Plan was established effective January 1, 1994. This reserve fund is based on a Reserve Study conducted periodically and it provides for the future major repair and replacement of all assets owned by the Association at that time.
 - b. **SWIMMING POOL RESERVE:** The Swimming Pool Reserve was established after the developer of Lake Monticello provided funding for a future swimming pool in lieu of constructing a second swimming pool as originally planned. Funds for the Swimming Pool Reserve shall be accounted for separately and all interest earned on those funds shall be credited to that Reserve account.
 - c. **DESIGNATED RESERVES:** The Board of Directors may from time to time designate funds to be used for specific purposes. Once so designated, those funds shall remain in a Designated Reserve account until such time as the funds are expended for the designated purpose or the project is completed. Upon completion of a project, any remaining funds shall be returned to the original source of funds.
 - d. **UNDESIGNATED RESERVES:** At the close of each year, any funds derived from an excess of income over expenses shall be transferred to the Undesignated Reserve Account. Likewise, a deficit in income/expense would be funded from the Undesignated Reserves. The Board of Directors must approve, in advance, any use of Undesignated Reserve funds.
 - e. **DISCRETIONARY ACCOUNT:** A money market account that the Board may

designate use of funds for any purpose.

- f. GROWTH ACCOUNT: A mutual fund account that the Board may designate use of funds for any purpose.

2. DONATION ACCOUNTS

- a. **Donations may be submitted to LMOA and will be carried as an identified donation for purposes of accounting. Donations can be made in two types, identified fund raising projects that are member initiated and approved by the Board of Directors, and individual one-time donations, either to a prescribed purpose or at-will. If at-will, the Board of Directors has full authority to allocate such a donation where needed.**
- b. **Donation accounts are restricted to their approved purpose until such time as the fundraising is unsuccessful, at which time, the provisions of [ref:] PM 4.02-D III B shall apply for reallocation of the funds.**

23. RESTRICTED FUNDS are monies generated from a particular source that are restricted to a particular use.

- a. IMPROVED PROPERTY FEES: Restricted to the costs of trash pick-up, recycling, snow removal, and any other expenses associated with improved properties that the Board of Directors may designate.
- b. NEW HOME CONSTRUCTION FEES: Restricted to road and drainage expenditures.
- c. PROPERTY TRANSFER FEES: Restricted to Capital Improvement Funding. [Ref: Bylaws 8.03]
- d. OWNER'S ESCROW (Building Deposits): Deposits held by LMOA pending the ECC approval of completion of new homes or dredging.
- e. CABLE FUNDS: Restricted to purchase of equipment related to broadcast activities.
- f. LONG TERM INVESTMENT PRINCIPAL: Earnings on this account may be used for Association operations. Use of the principal requires a member vote. Earnings are assigned to the Discretionary Account and/or the Growth Account.

I. ANNUAL BUDGET PROCESS

1. BUDGET GUIDELINES AND TIMELINE

The Finance Committee shall submit to the Board in May of each year the recommended budget guidelines to be followed by the committees and staff in preparing the annual budgets. These guidelines shall give consideration to the general economic climate and shall emphasize any goals or objectives of the Board that may impact on the budget. The budget guidelines must also establish criteria for determining budget priorities.

The Finance Committee shall submit to the Board in May of each year a schedule for preparation of the budget for the ensuing year. The schedule shall provide for member involvement and input in the earliest stages of budget preparation. All budget meetings/workshops of all committees shall be open and shall be publicized in LMOA

communications outlets. The Finance Committee and the Board shall hold at least one joint meeting to solicit input from the general membership.

The Board shall adopt the Operating, Reserve Plan, and New Initiatives budget for the following year not later than December 15 of each year.

2. PRIORITIES

- a. Existing Operations
- b. Reserves, including roads and lake
- c. New Initiatives, operating or capital, which generate income
- d. New Initiatives that do not generate income

3. RESPONSIBILITIES:

- a. The role of the Board of Directors is to review the budget submitted by the Finance Committee, assess the degree to which the budget meets the needs of the Association, and adopt a budget that addresses those needs in the most economical manner.
- b. The Finance Committee reviews staff/committee budget requests, establishes priorities at the LMOA level for competing needs, and recommends to the Board a budget that addresses the needs of the Association within funding levels acceptable to the membership.
- c. Staff and Committees - The Board of Directors and Finance Committee rely on the committees and staff to provide the detailed calculations and justifications necessary to develop the annual Operating, Reserve Plan, and New Initiatives Budget.

4. BUDGET JUSTIFICATIONS: Each new initiative (operating or capital) proposed in the budget must be fully justified. The justification must:

- state the objective of the initiative;
- document the benefits to be derived from the initiative;
- identify the specific tasks and resources that are necessary to achieve the initiative;
- discuss the alternative solutions considered; and
- explain why the proposed solution is recommended.

J. OTHER

1. ANNUAL INDEPENDENT AUDIT: An annual, independent audit will be conducted by a Certified Public Accountant with a detailed report provided to the Board of Directors. Also, refer to the charter for the Audit Committee [*Ref: PM 16.07*] and the Bylaws [*Ref: Bylaws 9.05*].
2. PROCEDURES MANUAL: A Financial Practices and Procedures Manual shall be prepared, approved and maintained which clearly describes and details the system used to maintain the Association's accounts on a daily, weekly, monthly, quarterly, semi-annual and annual basis. It shall contain detailed instructions and specific procedures to

be used for each transaction and transaction type. This Manual will be used for day-to-day accounting, training of new accounting personnel, and to provide the Auditor with the specific set of written procedures against which to compare actual performance and thereby form their opinion as to the level of our compliance. [Ref: PM 4.02B].

III. RESPONSIBILITIES

The General Manager is responsible to assure good internal controls of the financial and business assets of LMOA.