

CHAPTER FOUR - Section 04.02 A
FINANCIAL MANAGEMENT POLICY

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Amended:	September 24, 1987
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Amended:	August 31, 1994
Amended:	September 26, 2002
Amended:	September 28, 2006
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I. POLICY

It is the policy of the LMOA Board of Directors **that all financial accounts will be maintained to provide and approve written guidelines** in accordance with **generally accepted accounting principles (GAAP) based on** standards established by the American Institute for Certified Public Accountants (AICPA) as specified for Common Interest Realty Associations (CIRAs) **and outlined in the AICPA's Audit & Accounting Guide titled Common Interest Realty Associations.** ~~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.~~

In accordance with the foregoing, the Board of Directors will provide and approve written guidelines 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.~~ **Charges levied upon each lot as a share in rendering community services, provision of general maintenance, care, upkeep and funding of reserves for the long-term maintenance or replacement of common areas, amenities, facilities and common and capital components of the Association.**
- B. Amenity and User Fees - User fees/price structures are established by the Board of Directors for **certain** amenities during the budget process. A primary goal is that user fees for an amenity should be established at a level that ~~will~~**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, **storm recovery**, 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.~~ **CAPITAL NEW INITIATIVES are purchases or additions to the Association’s Capital Components or shall become a part of the Capital Components upon successful completion.**
 3. CAPITAL EXPENDITURES are funds expended for improvements or major repairs or replacements of common property components that extend their useful life or service periods. Such improvements, major repairs or replacement of an existing common component of the Association shall be funded through the Major Repairs and Replacements Reserve to the extent that funds have been contributed to the reserve by way of depreciation and/or funds contributed to the reserve and set aside for such components, which shall be detailed in the component’s reserve schedule. All components that meet or exceed the threshold amount of \$1,000 will be recorded in the Major Repairs and Replacements Reserve Accounts.
- H. RESERVE ~~FUNDS~~ AND RESTRICTED ACCOUNTS – **Each account described below is maintained as a Capital or Reserve Account**
1. **MAJOR REPAIRS AND REPLACEMENTS RESERVE** – This reserve account is a repository for funds set aside for capital expenditures associated with (a) major repair and/or replacement of, (b) emergency and other repairs as a result of storm, fire, natural disaster, or other casualty loss, and (c) recurring periodic

maintenance of capital components which the Association is obligated to maintain, including roads, parking areas and pathways, whether they be capitalized or not, that exceed \$1,000 or such other threshold as agreed by majority vote of the Board of Directors.

Revenue sources for the funding of the reserve account includes depreciation, dues and other fees contributing to reserves, investment income on reserve accounts, year-end surpluses, if any, and reimbursements for previously budgeted items. Depreciation, recorded in respect of each asset employed in the operations of the Association shall be prorated monthly and deposited to the reserve as defined in the Reserve Budget. In times when the Board of Directors considers these MR&R funds resources inadequate, a special assessment may be needed.

- a. **ROAD RESERVE** – The road reserve is a sub-account of MR&R whose funding requirements are based on a 30-year Reserve Study model which incorporates a schedule for maintenance, repairs and repaving of all roads, paths and parking areas throughout the community. The revenue sources for the Road Reserve are dues and other fees contributing to reserves, investment income on reserve accounts, year-end surpluses, if any, discretionary allocations and reimbursements for previously budgeted items.
- b. **LAKE RESERVE** – The lake reserve is a sub-account of MR&R whose funding requirements are based on MR&R studies of the Association’s lakes, ponds, streams, and their necessary impoundment and control structures, drainages that enter these lakes and ponds, spillways, marinas, docks, swimming areas, and related capital components necessary to maintain use of the water assets of the Association. ~~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.~~

2. **SPECIAL RESERVES** – This reserve sets aside funds for capital initiatives, whether new or ongoing. Each sub-account has specific, targeted purposes approved by the Board of Directors.
 - a. **LAKE HEALTH PROGRAM** – funds are designated to improve the water quality of the lake and are dedicated funds approved by member vote in 2005. Funds may be used for storm water management and Best Management Practices (BMP) that meet federal and state storm water retention practices, silt removal, fish stocking, water plant control, control of invasive species, and related lake health actions identified by the Lake Health Manager through coordination with the committees that have a role in preserving and improving the Association’s waterways.
 - b. **AMENITY IMPROVEMENT RESERVE** – This reserve includes funds identified by the Board of Directors or by member vote to fund future initiatives that support/replace amenities. If approved by member vote, a specific sub-account under Special Reserves shall be established as with Lake Health.
 - c. **AMENITY SUBSIDY RESERVE** – This reserve is established to contain funds used to subsidize amenities where the operating cost exceeds the revenues for the amenity. The subsidy shall be defined as part of the annual budget for each amenity cost center.
3. **RESERVE STUDY AND ANNUAL REVIEW** - The POAA requires a study every five years to determine the necessity and amount of reserves required to repair, replace or restore capital components. An annual review of the reserve study shall be conducted in accordance with the POAA that as a minimum provides the following:
 - a. The current estimated replacement cost, estimated remaining life and estimated useful life of capital components,
 - b. As of the beginning of the fiscal year for which the budget is prepared, the current amount of accumulated cash reserves set aside, to repair, replace or restore capital components and the amount of the expected contribution to the reserve fund for that year; and
 - c. A general statement describing the procedures used for the estimation and accumulation of cash reserves and the extent to which the association is funding its reserve obligations consistent with the study currently in effect.
 - ~~f. **GROWTH ACCOUNT:** A mutual fund account that the Board may designate use of funds for any purpose.~~
24. **RESTRICTED FUNDS ACCOUNTS** - 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 **and ice** removal, **storm recovery**, and any other expenses associated with improved properties that the Board of Directors may designate. **Any surplus of funds shall be retained in this account and available for use in future years.**

- b. NEW HOME CONSTRUCTION FEES: Restricted to road and drainage expenditures.
 - c. PROPERTY TRANSFER FEES: Restricted to Capital Improvement Funding. (Reference 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~~ EMERGENCY RESERVE ACCOUNT - The ERA represents a reserve that supports two purposes: 1) a reserve fund to deal with community emergency needs for funding, as approved by member vote, and 2) generation of investment income that can be used by the Board of Directors to offset costs to the members. At a Special Meeting of the members held September 12, 1998, the membership approved the sale of the Lake Monticello Service Company with the provisions "To approve the principal from this sale be invested and under the control of the Members requiring a vote of the Members for the principal to be used. The interest from this principal shall be available to the Board of Directors for use in maintenance, upkeep, general care of the amenities and assets of the corporation and capital needs."
- I. GENERAL ACCOUNT – The General Account is a restricted account for deposit of dues, assessments and all sources of funds generated as income from operations. Funds held in the General Account shall be available for allocation as set forth in the Annual Budget and in accordance with the Budget-funding plan. Funds received that have been dedicated by member vote and funds targeted for specific reserve accounts shall be transferred to their respective reserves at least quarterly. Funds received through the year that have been generated from fees shall be allocated on a periodic basis in accordance with the Annual Budget and budget-funding plan.**
- All disbursements from the General Account shall be in the form of a transfer to a specific reserve, the Short-Term Operating and Restricted Funds Account (STORFA) or the Operating Account.
- J. SHORT-TERM OPERATING AND RESTRICTED FUNDS ACCOUNT - The Short-Term Operating and Restricted Funds Account contains the operating funds of LMOA that are not required for immediate cash outlay. Investment income is then used for operations, reserves and capital needs. The amount of such funds available for investment under this policy shall be determined by the Treasurer, with recommendations from the General Manager, and may be expected to fluctuate. Specifically excluded from this fund is any of the principal received by LMOA from the sale of LMSC except as authorized by the membership.**
- K. OPERATING ACCOUNT – The Operating Account is the account used for regular payments and dispersals of the Association. The Operating Account contains the necessary balance to manage the cash flow of the Association and is funded from either the General Account, the STORFA or from the various reserve accounts based on the nature of the project, product or service. Funds from reserve accounts are identified in the Annual Budget and as approved by the Board of Directors at**

~~time of approval of the specific initiative. 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.~~

HL. ANNUAL BUDGET PROCESS

1. BUDGET GUIDELINES AND TIMELINE

The Finance Committee shall **prepare and** 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. **While these criteria may vary from year to year based on general economic conditions and the needs of the Association, priority shall be given to the funding necessary to sustain the reserves for Major Repair and Replacement.**

The Finance Committee shall **prepare and** 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 **prior to budget approval** to solicit input from the general membership.

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

2. PRIORITIES

- a. ~~Existing Operations~~**Reserves, including roads and lake infrastructure**
- b. ~~Reserves, including roads and lake~~**Existing operations**
- 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 **recommended and** 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:

- a. ~~S~~state the objective of the initiative;
- b. ~~d~~ocument-**Document** the benefits to be derived from the initiative;
- c. ~~i~~dentify-**Identify** the specific tasks and resources that are necessary to achieve the initiative;
- d. ~~d~~iscuss-**Discuss** the alternative solutions considered; and
- e. ~~e~~xplain-**Explain** why the proposed solution is recommended.

In the review of the budget request, the focus of the Finance Committee and the Board is on the benefits and cost of a new initiative and on determining how this initiative compares in importance to other proposed initiatives

JM. 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 (PM 16.07) and the Bylaws, Section 9.05.
2. PROCEDURES MANUAL: A Financial Practices and Procedures Manual shall be prepared **by the General Manager**, approved **by the Board of Directors** and maintained **by the General Manager** 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. See PM 4.02B.

III. RESPONSIBILITIES

The **Treasurer**, General Manager **and Director of Business Management** **are** responsible to assure good internal controls of the financial and business assets of LMOA **and consistency of these controls with AICPA's Audit and Accounting Guide for Common Interest Realty Associations**

Glossary of Terms

Financial Management

Unless the context otherwise requires, the words and terms defined in this section of financial policy have the meanings defined as follows:

Amenity means a recreational activity, including real and personal property, maintained and operated by the Association. Examples include the golf course, lake, beaches, playgrounds, ball fields, tennis courts, basketball courts, swimming pool, marina and Clubhouse.

Amenity Subsidy means a shortfall between expenses and revenues made up from member contributions through dues or special assessments to sustain the operation of an amenity.

Annual budget provides a forecast of revenues and expenditures; a model of how the association plans to perform for the coming year based on historical performance and assumptions of future revenues and expenditures. During the current operating year, current results may be measured against the budget compiled in the previous year to measure the performance of management in meeting goals with variances noted and cause/effect.

The annual budget is utilized to calculate the annual dues and fees. Each year the Association compiles a budget based on the expenditures it is obligated to make in rendering community services, provision of general maintenance, care and upkeep and funding of reserves for the long-term maintenance or replacement of all common areas, amenities, facilities and common components of the Association.

Annual Budget Funding Plan is the plan to manage cash flow, time transfers from reserves and other accounts, identify sources of funding for the budget, and follow the funding plan to retain as much of the Association's assets in interest bearing accounts as possible until needed for dispersal.

Annual dues refer to those charges levied upon each lot to meet the obligations of the Association in rendering community services, provision of general maintenance, care and upkeep and funding of reserves for the long-term maintenance or replacement of all common areas, amenities, facilities and common components of the Association.

Assessment is a charge which may be levied on each lot for community services, provision of general maintenance, care and upkeep and funding of reserves for the long-term maintenance or replacement of all common areas, amenities and common components of the Association.

Capital components means those items whether or not a part of the common area, for which the association has the obligation for repair, replacement or restoration and for which the board of directors determines funding is necessary.

Capital expenditures refer to the funds expended for improvements or major repairs or replacements of common components that extend their useful lives or service periods.

Capital new initiatives are purchases or additions to the association's capital components or shall become a part of the capital components upon successful completion.

Common area means real and personal property, which is owned, leased or required by the declaration to be maintained or operated by the Association for the use of its members and designated as common area in the declaration. Examples include roads, parking lots and unimproved reserve areas.

Common expenses mean expenditures made by, or financial liabilities of the Association together with any allocations to reserves.

Contribution to Major Repairs and Replacement Reserve means those charges set forth in the operating budgets for the funding of future repair or replacement of all components of the Association. This includes preventive maintenance.

Contribution to Major Repairs and Replacement Reserve Fee is a fee levied on each lot for the funding of future maintenance or replacement of all components of the Association. This fee may form a part of the Annual Dues or part of a Special Assessment.

Cost Center refers to an artificial entity, usually corresponding to an organization or organizational level, created to accumulate and report data on income and costs/expenses.

Depreciation is a method of allocating reduction in the value of an asset due to usage, passage of time, or wear and tear, and is charged on a pro rata basis to the cost center for subsequent use in replacement of the asset.

Facility refers to a building or other structure, including real and personal property, other than an amenity operated and maintained by the Association. Examples include the main gatehouse, mechanical gates and maintenance building.

Improved lots a residential building lot on which a single-family residence has been constructed, including a Marina Point condominium unit.

Improved Property Fee is levied against each improved lot to cover such costs as trash collection, recycling, snow removal, and other services provided to the improved lots. This fee is in addition to the property owner dues.

Line item is a term, which identifies a particular category of income or cost/expense.

Lot owner refers to the owner of a residential lot or Marina Point condominium unit.

Operating costs expenses incurred or resources consumed in operations of a cost center.

The Association's operations include multiple cost centers such as administration, maintenance, security, golf and marina operations.

POAA refers to the Property Owners' Association Act, one of the primary governing laws of the Commonwealth of Virginia.

Property owner refers to the owner of a residential lot or Marina Point condominium unit.

Reserve component refers to item(s) to be replaced, refurbished, renewed or rebuilt including all costs related to the process. Example, replacing a pool pump would include the cost to purchase the pool pump in the future, labor to remove the old pump and install the new pump, any materials utilized in the installation, costs of transporting including the disposal of the condemned pump, any required inspection fees and any subsequent charges or expenses incurred in a follow up inspection and or test.

Reserve Component Inventory refers to a list of reserve components with projected repair or replacements valued in excess of the threshold amount of \$1,000 or such other amount agreed by the Board of Directors.

Reserve refers to funds, which have been set aside, for a specific purpose.

Reserves are an important tool in long-term planning and resource management. Reserves may be utilized to set aside funds from one year to the next in order to meet a long-range goal. A *Major Repairs and Replacements Reserve*, which has been properly funded over past years, will provide the necessary funds next year to perform major repairs to some components or replace others. Without such a reserve funded over the years it would be difficult to perform major repairs, refurbishments or replace equipment without including the full cost in next year's budget, which would result in the need for a substantial assessment on owners.

Reserve Review a review conducted annually in accordance with the POAA of the current estimated replacement cost, estimated remaining life and estimated useful life of the reserve

components, the accumulated cash reserves set-aside, to repair, replace or restore reserve components and the amount of the expected contribution to the reserve fund for that year. Annually, a reserve review is conducted for inclusion in the budget and is accompanied by a statement describing the procedures used for the estimation and accumulation of cash reserves and the extent to which the association is funding its reserve obligations consistent with the *Reserve study*. Adjustments to the Reserve Study are detailed in the reserve reviews.

Reserve study is a study conducted at least once every 5 years in accordance with the POAA to determine the necessity and amount of reserves required to repair, replace and restore the reserve components. A reserve study may be made projecting the funding needs of the Association to conduct major common area repairs over a long term and then distribute the cost over those years by way of contributions each year to the reserve. In this way, it is possible to prepare well in advance for these inevitable expenses, spreading out the contributions evenly over time.

User Fee a charge set by the Board of Directors to defray the costs of operating an amenity.