

CHAPTER FOUR - Section 04.02 A
FINANCIAL MANAGEMENT POLICY

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I. POLICY

It is the policy of the LMOA Board of Directors that all financial accounts will be maintained in accordance with generally accepted accounting principles (GAAP) based on the 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 (A&A Guide). Interim internal management reports are not required to be in full compliance with GAAP, although annual reports are so required.

In accordance with the foregoing, the Board of Directors will approve written guidelines for the accounting system of the Association and establish proper financial management policies to deal with the operations of the Association and all Association owned amenities, facilities and common areas. A glossary of terms used is attached.

II. APPLICATION

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

- A. Annual Dues: Charges are levied upon each lot as a share in rendering community services, provision of general maintenance, care, and 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 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 the 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 [Ref: Bylaw 8.03] 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, charges 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 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 lives 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. Funds contributed to the reserve shall be recorded in the Reserve Component Ledger.

- H. RESERVE ACCOUNTS: Each account described below is maintained as a 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 not covered by insurance, and (c) recurring periodic maintenance of all the common property 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 the Board of Directors and detailed in the Reserve Component Ledger.

Revenue sources for the funding of the reserve accounts include depreciation, dues and other income contributing to reserves, interest, investment income, and from the operating account year-end surplus. Depreciation, as recorded for each asset of the Association shall be deposited in the MR&R Reserve account as defined in the Reserve Budget. Funds contributed to the reserve shall be recorded in the Reserve Component Ledger. In times when the Board of Directors considers MR&R 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 and parking areas throughout the community. Revenue sources for the funding of the reserve account include dues, depreciation and other fees contributing to reserves, interest, investment income, and any transfer from the general operating account year-end surplus.

- 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 dams, lakes, ponds, streams, and their necessary impoundment and control structures, drainages that enter these lakes and ponds, spillways, marinas, docks, beaches, swimming areas, and related capital components necessary to maintain use of the water assets of the Association. Revenue sources for the funding of the reserve account include dues, depreciation and other fees contributing to reserves, interest, investment income, and any transfer from the general operating account year-end surplus.
2. SPECIAL RESERVES: This reserve sets aside funds for capital initiatives, whether new or ongoing and for operating expenses. Each sub-account has specific, targeted purposes approved by the Board of Directors or by member vote.
 - a. LAKE HEALTH AND STORM WATER MANAGEMENT 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.
 - b. AMENITY IMPROVEMENT RESERVE: This reserve includes funds identified by the Board of Directors or by member vote to fund future initiatives amenities.
 3. RESTRICTED FUNDS ACCOUNTS: are monies generated from a particular source that are restricted to a particular use.
 - a. IMPROVED PROPERTY FEES (IPF): 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. **Allowable expenses include:**
 - 1) **Solid waste collection and disposal, including weekly residential pickup, leaf disposal at a designated site, and periodic clean-ups using dumpsters. Waste collection at LMOA common areas and facilities shall be funded from the Operations budget and charged to that activity, not the IPF.**
 - 2) **Snow removal and ice treatment for roadways and parking, including consumable chemicals, equipment, overtime costs of staff, and cost of those contractors and equipment needed to supplement staff.**
 - 3) **Storm recovery, to include both staff and contractor support for clearing of storm debris along roadways to first open up roads for access and subsequent removal of debris along the roadway and right-of-way to safely restore access. Overtime costs of staff and cost of contractors and equipment needed for debris and tree removal on roadways and right-of-ways. Common area cleanup along the lake, in parks, on the golf course and other areas maintained by LMOA shall be cleared using the Operating budget and a proration of cost where using the same**

contractors as roadway cleanup shall be made. IPF funds cannot be used for common area cleanup except for roadways and rights of way.

4) Capital expenses associated with capital purchases for delivery of services provided to improved properties can be charged to the IPF account.

- b. NEW HOME CONSTRUCTION FEES: Restricted to road and drainage expenditures.
 - c. PROPERTY TRANSFER FEES: Restricted to Capital Improvement Funding. *[Ref: Bylaw 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 PROVIDER PAYMENTS: Restricted to purchase of equipment related to broadcast activities.
 - f. 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 interest and dividend 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 (LMSC) 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 clearing 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 from STORFA is available as defined in *[Ref:] PM 4.02Q*.
- 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.

- L. RESERVE STUDY AND ANNUAL REVIEW: The Board of Directors shall ensure compliance with the requirements of the Virginia Property Owners Association Act (POAA) including, but not limited to, §55-514.1 *Reserves for capital components*.

M. 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.

The Finance Committee shall prepare and submit to the Board in May of each year its 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, and Capital New Initiatives Budgets for the following year not later than December 15 of each year.

2. PRIORITIES

- a. Existing operations
- b. Reserves, including roads and lake infrastructure
- 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 fiscally responsible manner.
- b. The Finance Committee in conjunction with the Buildings, Roads & Grounds Committee review, shall recommend updates and amendments to the Reserve Study by the July regular meeting of the Board of Directors and use cost data supplied from the independent reserve study contractor each year to reflect changes in LMOA assets and in market conditions; and that the Finance Committee develop a plan to fund the reserve contributions determined necessary in accordance with the Reserve Study or its updated reviews.
- c. 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.

4. BUDGET JUSTIFICATIONS: Each new initiative (operating or capital) proposed in each budget must be fully justified. The justification must:
 - a. State the objective of the initiative;
 - b. Document the benefits to be derived from the initiative;
 - c. Identify the specific tasks and resources that are necessary to achieve the initiative;
 - d. Discuss the alternative solutions considered;
 - e. Explain why the proposed solution is recommended; and
 - f. Reference the goal(s) and objective(s) from the LMOA Strategic Plan.

In the review of the budget requests, the focus of the Finance Committee and the Board is on the benefits and the costs of an initiative and on determining how that initiative compares in importance to other initiatives proposed.

N. 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 LMOA Audit Committee [Ref: PM 16.07] and the [Ref: Bylaw 9.05] Bylaws, Section 9.05.
2. The LMOA Finance and Audit Committees shall provide advice to the General Manager, Director of Business Management and the Treasurer on budget and audit issues respectively.
3. 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. [Ref:] See PM 4.02B.

III. RESPONSIBILITIES

The Treasurer and General Manager are responsible for assuring 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

Unless the context otherwise requires, the words and terms defined in this policy section have these meanings:

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.

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 presumptions 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 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. In addition to the day-to-day operating budget, budgets are developed for reserves and new initiatives.

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 the cost of property to operating periods and cost centers.

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 Fees are levied against each improved lot to cover such costs as trash collection, recycling, snow removal, **storm recovery**, 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.

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

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. Each year the Inventory is updated and recorded in the Reserve Component Ledger.

Reserve component Ledger refers to a binder in which the lists of reserve components and their updates are archived.

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

Reserves are an important tool in long-term planning. 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 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-funding plan 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 required to be conducted at least once every 5 years 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 Fees are charges set by the Board of Directors to defray the costs of operating an amenity.