

## Place One Condominium

# Policy Statement

**Date:** March 1, 2019  
**Policy Statement:** 19-23 (Replaces 12-23)  
**Subject:** Financial Management

### I. Introduction

This Policy establishes operational and strategic financial management controls to ensure: a) compliance with relevant sections of the Virginia Condominium Act, b) compliance and clarity in execution of relevant sections of the Place One Master Deed, c) establishment of core financial planning, reporting and independent review processes to ensure transparency of planning and execution activities to Co-Owners, and d) establishment of investment management policies and procedures which minimize Co-Owner risk.

### II. Key Declarations

- A. Fiscal Year.** Place One's Fiscal Year is a calendar year.
- B. Accounting Method.** Place One uses the Accrual method of accounting.
- C. Accounting Standards.** Place One follows Generally Accepted Accounting Principles (GAAP).

### III. General Roles and Responsibilities

- A. Council of Co-Owners.** The Council of Co-Owners adopts a Budget for the coming Fiscal Year at its Annual Meeting in November. Consistent with the requirements of the Virginia Condominium Act and the Master Deed, the Budget addresses both operational and capital expenditures.
- B. Board of Directors.** The Board of Directors proposes one or more Budget options to the Council as a "Budget Proposal" in the Annual Meeting Notice mailing required by the Master Deed. Once adopted by the Council, the Board oversees Budget execution through the Fiscal Year, including making necessary adjustments to budgeted operational and capital expenditures. The Board is responsible for ensuring that all expenditures including those in excess of, and in some cases less than, Council adopted amounts are justified.

In the event the Council fails to adopt a budget at the Annual Meeting, the Board shall exercise its obligation under Article XXIII of the Master Deed and

enact a schedule of assessments based on a financial plan sufficient to meet the needs of the operating and reserve accounts. In doing so, the Board must consider reasonable objections which may have been made regarding the original proposal(s).

The Board makes investment decisions consistent with this Policy. The Treasurer, working with the Finance Committee, General Manager and others, normally takes the lead in these matters.

- C. Committees.** The Finance Committee, working with other relevant committees, the General Manager and Treasurer, normally leads the Budget Development process and proposes a Budget to the Board of Directors in time for consideration at the September Board Meeting. The Finance Committee also monitors Budget and investment management execution consistent with established policy and regularly reports to the Board with findings and recommendations. In the absence of a functioning Finance Committee, the responsibilities are performed by a committee of the Board consisting of no fewer than two Board members with the Treasurer serving as Chair.
- D. General Manager.** Place One's General Manager (GM) coordinates the Budget Development process and manages the day-to-day execution of operational and capital expenditures consistent with this and other policies. The General Manager's independent expenditure authority expense is set by the Board. The General Manager works to ensure all expenditures including those in excess of, and in some cases less than, Council adopted amounts are justified.
- E. Condominium Management Firm.** The Board of Directors selects an independent condominium management firm to provide budget development, execution, reporting, accounting and payroll management support. The management firm must be experienced in condominium community financial management issues and practices.
- F. External Auditors.** The Board of Directors selects an independent Certified Public Accounting firm to conduct an annual audit of Financial Statements, conduct a Management Review of internal controls and prepare Income Tax returns. The Accounting firm must be experienced in condominium community financial management issues and practices.

#### **IV. Financial Accounts**

Place One manages three primary funding accounts consistent with the Master Deed.

- A. Operating Account.** Condominium Assessment payments and other fees flow into an operating account administered by Place One's Condominium Management Firm. The firm is authorized to expend funds as directed by the General Manager consistent with Budget and Board authorizations. The firm must have sufficient internal controls to ensure that at least two personnel oversee expenditures.

- B. General Operating Reserve Account.** Consistent with Master Deed requirements, an independent Operating Reserve account is maintained equal to at least 7.5% of the Fiscal Year's total assessments. The Account is one of three tools available to the Board to address both unforeseen shortfalls in assessment revenue and/or higher than planned operating expense. Other tools include special assessment to raise additional revenue or a reduction in expense outlays. When used, funds borrowed from the Operating Reserve must be replenished based on a minimum monthly payment formula specified in the Master Deed. Repayment begins as soon as possible in the current Fiscal Year or, at the latest, is included in the following Fiscal Year's Budget. Investment decisions are made by the Board consistent with Section VII. Use of Operating Reserves requires Board approval. Transfers and/or payouts from investment accounts require the signature of two Directors.
- C. Reserve Fund.** Consistent with Master Deed requirements, a Reserve Fund made up of one or more investment accounts is maintained to accumulate funds for future capital expenditures. A Capital expenditure is generally defined as a major repair and/or replacement item related to the building's infrastructure. Monthly contributions to the Reserve Fund are based on Place One's Reserve Funding Model, described in Section V of this policy. Absent an emergency, Place One's fund balance management goal is to ensure an aggregate minimum balance of 10% of the current Annual Budget's total revenue. Reserve Fund investment decisions are made by the Board consistent with Section VII. Expenditures require Board approval. Transfers and/or payouts from investment accounts require the signature of two Directors.

## **V. Reserve Funding Model**

The Virginia Condominium Act requires Place One to conduct and maintain a *“study to determine the necessity and amount of reserves required to repair, replace and restore the capital components.”* The Reserve Funding Model (Model) addresses this requirement and authorizes and/or guides income contributions and expenditures submitted in the Annual Budget associated with these funds.

- A. Methodology.** The Model starts with a list of pre-identified replacement and repair items which may need to be addressed during the next 25-30 years. The useful life of each item is estimated based on “engineering” and/or “business” information. The Model factors estimates of the replacement and repair costs, inflation for each year, investment income, and interest expense for any loans. The Model's data are housed in a spreadsheet coded to address the factors.
- B. Annual Review.** The Virginia Condominium Act requires an annual review of the Model. The Annual Review is initiated by the Vice President of the Board with the support of the General Manager and occurs between late August and early September. The review consists of a joint Board and Committee information exchange session. The review assesses and adjusts previous assumptions as necessary and models Reserve Fund contributions and

expenditures. Information from this session is considered by the Board at its meeting to adopt an Annual Budget proposal to the Council of Co-Owners.

No later than July, the Finance, Building, and Recreation Committees identify proposed changes to the Model in preparation for the upcoming Annual Review.

- C. Five Year Review.** The Virginia Condominium Act requires a major review of the Model every five years. To assist, Place One employs the services of an independent Engineer familiar with condominiums no later than March of the five year review. Data supplied by the engineer are to be based on the average useful life of the items which may be adjusted to match the real useful life of Place One items in terms of both “engineering” and “business” priorities. The independent analysis associated with the Five Year Review is used to update the Funding Model which is further subject to the Annual Review. The General Manager is responsible for ensuring the Five Year review occurs and the Model is updated prior to the Annual Review. The General Manager may request assistance of community leaders in conducting this reconciliation.

## **VI. Transparency in Budgeting and Budget Performance**

Place One is committed to ensuring transparency to its Co-Owners regarding its financial status, both “proactively” and “by request” of a Co-Owner. Attachment A shows how the Annual Budget is developed to comply with the Virginia Condominium Act and the Master Deed.

- A. Annual Budget Proposal and Performance Report (Proactive).** To ensure informed decisions on the part of Co-Owners at the Annual Meeting, Budget Proposal(s) from the Board of Directors consist of the following four parts.

- a. Part I - Introduction.** Includes a general narrative from the Treasurer reporting significant variances in account performance for the Fiscal Year in effect, how it differs from the past and how it affects the proposed Annual Budget. Key narrative items include but are not limited to:

### **I. Operating Highlights**

- 1.** Income budgeted versus actual and reasons for variances including delinquency, interest income and other trends of note.
- 2.** Expense budgeted versus actual and reasons for variances in major categories.
- 3.** Status of the General Operating Reserve Account, including whether or not it is fully funded and, if not, how any negative variance will be corrected.

### **II. Reserve Fund Highlights**

- 1.** A general statement describing the procedures used for the estimation and accumulation of reserves.
- 2.** Status of the Reserve Fund, including whether it is fully funded per the Annual Budget and if not, the reasons why.
- 3.** Expense planned versus actual and reasons for variances in major categories as it relates to the Model.

### III. Balance Sheet Highlights

1. Cash balances in all three accounts at the end of July or August prior to the Annual Budget proposal.
2. Status of any loans at the end of July or August prior to the Annual Budget proposal along with other anticipated major liabilities.

b. **Part II - Planned Operating Income and Expense.** Includes proposed income and expense by major budget category for the coming Fiscal Year along with four years of past actual performance to include best estimates for current year-end planned versus actual performance.

c. **Part III - Planned Reserve Fund Income and Expense.** The Virginia Condominium Act requires that *“the unit owners' association budget shall include, without limitations: 1. The current estimated replacement cost, estimated remaining life and estimated useful life of the capital components; 2. 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 the capital components and the amount of the expected contribution to the reserve fund for that fiscal year; and 3. A general statement describing the procedures used for the estimation and accumulation of cash reserves pursuant to this section and the extent to which the unit owners' association is funding its reserve obligations consistent with the study currently in effect. (2002, c.459.)”* Place One's Reserve Funding Model as maintained consistent with this policy, along with the narrative outlined in Part I, complies with these requirements.

d. **Part IV - Balance Sheet.** Includes current cash balances and other assets as measured against liabilities at the end of July or August prior to the Annual Budget proposal.

B. **Board Meeting Reports (Proactive).** The Treasurer provides an overview of Place One's financial health at monthly Board Meetings. At a minimum, the report includes the following key performance information to be recorded in the minutes.

a. **Income and Expense.** Significant variances as related to the Annual Budget including Reserve Fund income and expense.

b. **Assessment Delinquencies.** Status of delinquent accounts including high level actions to resolve.

c. **Balance Sheet.** Changes in cash positions (each account separately) along with loan and other major liability information.

d. **Projected Performance.** As practical given the month, an assessment of performance relative to Fiscal Year financial plans.

C. **Board Minutes (By Request).** Consistent with the Virginia Condominium Act, Board roles and responsibilities related to this Policy require that decisions, including those to adjust Council approved Budgets and changes in investments must be made during the course of an open Board meeting.

Such decisions are recorded as part of the meeting minutes. Board meeting minutes are available for Co-Owner review in the management office.

- D. Annual Audit (By Request).** The External Audit provided by the independent Accounting firm for the previous fiscal year is normally available in the fall. The most recent Audit is available for Co-Owner review in the management office.
- E. Copies.** Co-Owners may request copies of the above items. Electronic versions are provided at no charge. Board Minutes and Annual Audits are available on the website ([www.placeonecondo.net](http://www.placeonecondo.net)). Hard copy requests are subject to a charge of twenty cents per page.

## **VII. Investments.**

The Balance Sheet Report shows current accounting balances for the two Reserve accounts. In addition to the Operating Account, Place One maintains one or more accounts in one or more financial institutions to hold non-operating funds. These Reserve investments are to be fully insured by an agency of the Federal Government, such as in the case of certain federally chartered commercial and savings banks and credit unions, explicitly guaranteed by the Federal Government, as in the case of Treasury instruments, or investments in mutual funds which invest only in instruments with explicit or implicit U.S. Government guarantees.

**A. Objectives.** Objectives of the Reserves investment policy are as follows:

- 1. Protection.** Insure maximum protection of principal.
- 2. Liquidity.** Insure Reserve liquidity consistent with projected expenditures and desired yields.
- 3. Yield.** Achieve maximum practicable yield.

**B. General Operating Reserve Account.** Investments are limited to those institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF). In the aggregate, investments including accrued interest may not exceed the maximum Federal Government insurance provided per account. To ensure liquidity for potential needs, investment is limited to Money Market accounts and Certificates of Deposit. Certificates of Deposit may not exceed a term of one year and at least one-fourth of the General Operating Reserve Account should be liquid within ninety-one (91) days.

**C. Reserve Fund.** Investments are limited to the following criteria.

- 1. Money Market Accounts and Certificates of Deposit.** Investments are limited to those institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF). In the aggregate, investments including accrued interest may not exceed the maximum Federal Government insurance provided per

account. The minimum balance in Section IV. C. above may be held in Certificates of Deposit with up to fifty percent (50.0%) maturing within two (2) years and the balance maturing within one (1) year. Additional funds may be held in Certificates of Deposit with maturities not to exceed one (1) year upon determination by the Board of Directors, with the advice of the Finance Committee, that scheduled maturities match project schedules.

2. **U.S. Treasury Bills and Notes.** The limits on Certificates of Deposit in VII. C. 1. shall apply to U.S. Treasury Bills and Notes and Certificates of Deposit in the aggregate.
  3. **U.S. Savings Bonds.** Investments may be made in Series EE United States Savings Bonds without limitations other than those which attach to the issuance. Decisions to purchase U.S. Savings Bonds must consider liquidity needs of the Reserve Fund at the time of purchase.
  4. **Mutual Funds.** Investments in Mutual Funds are permissible provided the Fund is offered by a nationally recognized company, is “no load” and the underpinning investments are in securities which are explicitly guaranteed by the Federal Government with minimum risk to principal. Investments in such funds must be fully liquid. Mutual Fund investments are limited to 15 percent of the total Reserve Fund.
- D. **Investment Management.** The Board may authorize the use of an investment firm to assist in the management of the General Operating Reserve Account and/or Reserve Fund.



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Valerie Spiegler, President  
Board of Directors

Attachment A

# Place One Annual Budget Development and Proposal Process

