

# **Beaverdam Run Condominium Association**

## **Financial Policies & Procedures**

Approved by the Board on April 14, 2022

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## Purposes

The purposes of this document are to:

1. Collect for handy reference all fiscal management requirements contained in the Declaration of Beaverdam Run Condominium and its Bylaws.
2. Where appropriate, this includes current policies authorized by the Board of Directors to supplement and/or implement fiscal management requirements outlined in the Declaration and Bylaws. Care has been taken not to duplicate, amend, or in any other way conflict with or detract from the fiscal management requirements contained in the Declaration of Beaverdam Run Condominium and its Bylaws.

The remainder of this document quotes the relevant language from the Declaration of Condominium or the Bylaws, and, for each topic, the document lists the “supplementary policies” adopted by the Finance Committee and approved by the Board.

## Policies & Procedures

### *Treasurer—Bylaws, Article V, Section 7.*

The Treasurer shall have the responsibility for the Association’s funds and securities and shall be responsible for keeping full and accurate financial records and books of account showing all receipts and disbursements, for preparing all required financial statements and tax returns, and for the deposit of all monies and other valuable effects in the name of the Association or the managing agent in such depositories as may from time to time be designated by the Board of Directors.

### *Assistant Treasurer—Bylaws, Article V, Section 8.*

An ... Assistant Treasurer shall act in the absence of the ... Treasurer ... and shall have all the powers, duties and responsibilities provided for the ... Treasurer ... when so acting.

### Supplementary Policies

1. In the absence of the Treasurer, the Assistant Treasurer may act in any capacity of the Treasurer.
2. Because the Treasurer and Assistant Treasurer handle the Association’s finances and must be authorized signers on the Association’s financial accounts, the chair of the Finance Committee shall obtain a satisfactory background screening of the prospective Treasurer and Assistant Treasurer from a reputable agency, showing no issues of fraud or corruption that could jeopardize the Association’s financial condition, before they begin their duties. All of the information

- requested on the background screening consent form must be provided before the background screening will be submitted to the background screening agency. Background screenings for the Treasurer and Assistant Treasurer must be redone every two years.
3. The Treasurer shall prepare a monthly income statement and balance sheet. Each month, the Treasurer shall provide a copy of these statements to Board members and Finance Committee members, and the Treasurer shall discuss the monthly report in Board meetings. The monthly income statement shall be distributed to the chairs of the Landscape, Building Maintenance, and Clubhouse Committees. If a meeting of the Association Membership is to be held for which an agenda item involves the finances of the Association, then the most recent monthly financial statement shall be distributed with the meeting notice.
  4. Bank Statements—Each month the Treasurer shall provide the Board with official bank statements listing all payments. The listing of each payment shall include: (1) date and (2) amount. During each monthly meeting, the Board shall review the payments and discuss any issues it identifies with the Treasurer.
  5. Monthly Board minutes shall state that the Board financial reviews described in items (1) and (2) above took place.
  6. Payments by the Treasurer to contractors for work done for the Association shall be paid directly to the contractor.
  7. As and if required by law, the Treasurer shall file annual 1099-MISC forms reporting total payments for Association work that the Association made during the fiscal year to each contractor.

### ***Operating Fund—Bylaws, Article VI, Section 1.***

This fund shall be used for current maintenance, management and operations of the condominium and shall include: (1) fixed monthly revenue sums as set out in the budget for the year, monthly fund investment income and such sums as may be authorized from time to time by the Board to be transferred from the Contingency Fund, and (2) all expenditures with reference to the current year except those expenditures designated to be spent from the Capital Reserve Fund.

### **Supplementary Policies**

1. The relevant operating committee shall issue requests for proposals for any services of a contractor paid from the Operating Fund whose annual cost exceeds \$10,000, with the following exceptions: (a) the

same contractor that the Association used the year before has an increase in cost (excluding materials) that is no higher than the rate of inflation, (b) a benchmarking study finds that the contractor used the year before has a cost within the range that other condominiums pay for a comparable service, or (c) the Board issues a waiver. Since only the Board has the authority to bind the condominium association to a contract, the operating committee shall submit to the Board its recommended choice of contractor's bid along with the competing bids.

### ***Capital Reserve Fund—Bylaws, Article VI, Section 2.***

This fund shall be used for the maintenance and replacement of and capital improvements to the Common Elements and Limited Common Elements in such amounts as shall be determined from time to time by the Board of Directors by approval of a Capital Reserve Fund Long-range Plan. Sums deposited in the fund shall consist of fixed monthly revenue sums as set out in the latest approved Capital Reserve Fund Long-range Plan, monthly fund investment income and such sums as may be authorized from time to time by the Board to be transferred from the Contingency Fund.

#### Supplementary Policies

1. Each month, the Treasurer shall assign to the Capital Reserve Fund that month's dollar amount due to the Fund in accordance with the Board's annual decision, and the remainder of monthly assessment receipts shall be assigned to the Operating Fund.
2. Each end-of-month balance of the Capital Reserve Fund shall be equal to its balance at the end of the prior month plus fixed monthly revenue sums as per the approved Capital Reserve Fund Long-range Plan plus net earnings from the Capital Reserve Fund investments plus any Board-authorized transfers to the Capital Reserve Fund from the Contingency Fund minus Board-approved expenditures from the Capital Reserve Fund.<sup>1</sup>
3. In keeping with the Bylaws, there shall be no transfers from the Capital Reserve Fund to either the Contingency Fund or the Operating Fund except to facilitate the payment of approved capital expenditures.
4. Appropriate expenditures from the Capital Reserve Fund shall satisfy the following criteria: an addition, replacement, or repair of Common and Limited Common assets that (a) has an expected life of at least ten years and (b) has a cost of at least \$5,000; any exceptions to this

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<sup>1</sup> Sometimes a recipient of a check might delay depositing the check, in which case account balances might temporarily not satisfy this formula.

criterion must follow the process in supplementary policy #5 below. Expenditures for routine repairs and maintenance are not appropriate uses of the Capital Reserve Fund.

5. The Board must approve any expenditure from the Capital Reserve Fund, either as part of the annual budget approval process or as an extra approval during the budget year; the Board must provide the approval prior to the work's having been initiated except in an emergency or to rectify an immediate safety hazard. The Treasurer shall inform the Finance Committee of the nature and amount of each month's expenditures from the Capital Reserve Fund. Exceptions to the standard enumerated in supplementary policy #4 above shall follow this process: if the Board approves an expenditure from the Capital Reserve Fund that does not meet the standard, then the Board shall document the Board's decision regarding the expenditure in the Board minutes.
6. The relevant operating committee shall issue requests for proposals for any services of a contractor paid from the Capital Reserve Fund whose annual cost exceeds \$10,000, with the following exceptions: (a) the same contractor that the Association used the year before has an increase in cost (excluding materials) that is no higher than the rate of inflation, (b) a benchmarking study finds that the contractor used the year before has a cost within the range that other condominiums pay for a comparable service, or (c) the Board issues a waiver.

### ***Contingency Fund—Bylaws, Article VI, Section 3.***

This fund shall be used for such purposes as the Board shall determine and consists of (1) all Association receipts for the current year after distribution of fixed monthly budgeted sums and respective fund investment earnings to the Operating Fund and the Capital Reserve Fund, and (2) less such sums as may be authorized to be transferred from it from time to time by the Board to the Operating Fund or the Capital Reserve Fund.

### **Supplementary Policies**

1. The annual budget shall be developed with a budgeted Contingency Fund balance at the end of the fiscal year of \$80,000.
2. Before the beginning of each fiscal year, the Board shall authorize the Treasurer to transfer moneys between the Contingency Fund and the Operating Fund at will during the year, so that the Contingency Fund provides interest-earning working capital to the Operating Fund.

3. To facilitate transfers between the Operating Fund and the Contingency Fund, the checking account and one of the accounts holding the balances of the Contingency Fund should be held in the same institution.
4. In the event that the combined Contingency Fund and Operating Fund balance is insufficient to pay the Association's bills that are currently due, but not otherwise, the Treasurer is authorized to draw on the Association's credit card to satisfy the need. By email, the Treasurer shall inform the Finance Committee chair and the Board within one day how much the Treasurer put on the credit card. With the goal to avoid extending the Association's indebtedness, if the credit card balance cannot be paid off within the billing cycle, the Finance Committee shall recommend to the Board that the Board impose a special assessment.

#### ***Budgets and Assessments—Bylaws, Article VI, Section 4.***

In compliance with Sections 11.4 and 11.5 of the Declaration, the Board of Directors shall adopt an operating budget and, if necessary, a capital budget, for each calendar year that shall include the estimated funds required to defray the Common Expenses and capital expenditures and to provide and maintain funds for the foregoing accounts. A copy of the budget and proposed assessments shall be sent to each Member, on or before December 1 preceding the fiscal year for which the budget is made. At any time that the budget is subsequently amended, a copy of the amended budget shall also be furnished to each Member. However, delivery of a copy of any budget or amended budget to each Member shall not affect the liability of any Member for any assessment, nor shall delivery of a copy of such budget or amended budget be considered as a condition precedent to the effectiveness of said budget and the assessments levied pursuant thereto, and nothing herein contained shall be construed as restricting the right of the Board at any time in its sole discretion, to levy additional assessments in the event that the budget originally adopted shall appear to be insufficient to pay the costs and expenses of operation, maintenance and management of the Condominium, or in the event of an emergency.

At the delivery of the proposed budget to the Members, the Board shall give notice of a meeting of the membership to exercise its authority to reject the proposed budget. The meeting shall be held not less than seven nor more than thirty days after delivery of the budget and notice. The meeting shall be properly constituted in the absence of a quorum. The budget shall be approved and go into effect unless disapproved by the vote in person or by proxy of a majority of the votes of all Unit Owners.

Notwithstanding the foregoing, however, in the event that the membership rejects the proposed budget or the Board fails for any reason so to determine the budget for the succeeding year, then and until such time as a budget shall have been determined, as

provided herein, the budget in effect for the current year shall continue for the succeeding year.

***Computation of Capital Budget and Capital Assessments—Declaration, Section 11.5.***

The Board of Directors may annually prepare a capital budget which shall take into account the number and nature of replaceable assets, the expected life of each asset, and the expected repair or replacement cost, including the amount of capital assessments to be levied for the current fiscal year, as provided by Article VI of the Bylaws.

**Supplementary Policies**

1. The operating portion of the budget shall generally be balanced or produce a surplus. If a budget is presented that is not balanced or has a surplus, then the Board should justify it to the Owners.
2. At the end of a year in which the balance of the Contingency Fund exceeds \$80,000, the Board shall consider transferring the excess over \$80,000 to the Capital Reserve Fund.
3. The portion of each month's receipts of monthly assessments that is budgeted to go to the Capital Reserve Fund shall be computed as follows:
  - The Long-range Planning Committee shall initiate reviews of the committees' proposed future expenditures from the Capital Reserve Fund early in each calendar year. The reviews shall ensure that the proposals have adequate support for these elements: the standard of appearance and quality to be achieved, the solution to satisfy that standard, the estimated costs of the solution, and the timing of the expenditures. The support should be more rigorous for expenditures to be undertaken in the next five years.
  - For each fiscal year, the Long-range Planning Committee shall develop a report and a recommendation to the Finance Committee of what dollar amount of monthly assessments should be allocated to the Capital Reserve Fund.
  - The Finance Committee shall review the recommendation of the Long-range Planning Committee and the analysis used to develop the recommendation. The Finance Committee and the Long-range Planning Committee shall arrive at an agreement as to what dollar amount of monthly assessments should be allocated to the Capital Reserve Fund. The Finance Committee shall present that amount as a recommendation to the Board.



- As part of its deliberations on the annual budget, upon considering the Finance Committee's recommendation, the Board shall set the dollar amount of monthly assessments that will be allocated to the Capital Reserve Fund. The Board shall review and approve a Capital Reserve Fund Long-range Plan every year.

#### ***Depository and Investment—Bylaws, Article VI, Section 5.***

The depository for Association Funds shall be banks or such other financial institutions as the Board shall from time to time designate. Withdrawal or transfer of monies from such accounts shall only be permitted by persons designated by the Board; provided, however, that no reimbursements in excess of \$100, including payments made in the form of goods and services, may be made to any officer or Board member, unless the Board approves such payments in advance pursuant to Section 47C-3-118(c) of the Condominium Act. The funds of the Association may be retained in whole or in part in cash and/or be invested and reinvested in such conservative investments as the Board deems appropriate.

#### **Supplementary Policies**

1. Any bank deposits shall be placed only with FDIC-insured banks. Balances in any one bank should be maintained below the maximum amount that is FDIC insured.
2. The Capital Reserve Fund and Contingency Fund shall be segregated in separate depository accounts.
3. The Contingency Fund shall be invested in a money-market fund, savings account, or negotiable order of withdrawal ("NOW") account, and shall serve as interest-earning working capital for the Operating Fund.
4. A depository bank account shall be maintained for the receipt of checks for monthly assessments and special assessments.
5. Checking accounts shall be maintained for (1) the receipt of Automated Clearing House ("ACH") payments of monthly assessments and special assessments and (2) payments by check, "ACH", wire transfer or debit card of Association expenditures from the Operating Fund and from the Capital Reserve Fund.
6. The Treasurer shall maintain accounting records of what portion of the checking account balance and the depository account balance belongs to the Operating Fund and what portion belongs to the Capital Reserve Fund. The portion of the checking and depository account balances

- that belongs to the Operating Fund shall comprise the entire balance of the Operating Fund.
7. As of the date of the Board's approval of these Policies and Procedures, permissible investment vehicles for the Capital Reserve Fund that meet the criterion of "conservative" are the following:
    - FDIC-insured checking accounts,
    - FDIC-insured bank certificates of deposit,
    - money market funds that are either FDIC-insured or AAA-rated,
    - FDIC-insured bank savings accounts or NOW accounts,
    - Treasury bills, notes, or bonds with maturities of ten years or less, and
    - Treasury Inflation-Protected Securities ("TIPS") with maturities of ten years or less.<sup>2</sup>
  8. If the Finance Committee identifies an additional investment vehicle that might satisfy the criterion of being conservative, then it will present its recommendation to the Board to include that investment vehicle in the list of permissible investments.
  9. When developing its recommendations to the Board regarding the allocation of Capital Reserve Fund balances among various investments, the Finance Committee shall balance five potentially conflicting objectives:
    - ensure that liquid funds will be available to meet needed expenditures;
    - seek higher returns, which are generally available from longer-maturity investments, within the set of investments that are conservative;
    - avoid paying a penalty if an investment had to be liquidated before maturity;
    - avoid having to realize a loss of principal if an investment had to be sold before maturity and if interest rates were to rise in the meantime; and

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<sup>2</sup> When advantageous, Treasury bills, Treasury notes, and TIPS will be acquired through Treasury Direct to avoid commissions.

- avoid losing purchasing power of an investment because of inflation.

When developing recommendations regarding the mix of investments, the Finance Committee should account for the expected timing of expenditures from the Capital Reserve Fund and the amount of uncertainty regarding the size and timing of those expenditures. The Board should also take advantage of flexibility in choosing when to undertake projects requiring moneys from the Capital Reserve Fund if an appropriate choice of timing would avoid causing fees or losses to the Capital Reserve Fund investments.

10. All funds shall be maintained in income-earning accounts except those funds required for timely payment of obligations and to accumulate receivables for transfer to income-earning accounts.
11. Commitment of funds is the sole responsibility of the Board, which may delegate limited authority to committee chairs and other designated individuals.
12. Background Screenings for Board Members—Because Board Members regularly vote on issues that directly affect the Association’s finances and because they may be required to be authorized signers on the Association’s financial accounts, the chair of the Finance Committee and the Treasurer shall obtain a satisfactory background screening of each candidate for election to or appointment to the Board from a reputable agency, showing no issues of fraud or corruption that could jeopardize the Association’s financial condition. The background screening for candidates for election to the Board shall be completed before the names of the candidates are announced to the unit owners. The background screening for a candidate that the Board desires to appoint to a vacancy on the Board shall be completed before the Board vote to seat that candidate. All of the information requested on the background screening consent form must be provided before the background screening will be submitted to be background screening agency. Background screenings for Board Members must be redone every two years.
13. Paper Check Withdrawals--Paper checks of less than \$20,000 shall bear the signature of the Treasurer or Assistant Treasurer, or, if both were unavailable, then the Board President, or, if the Board President were unavailable, then the Board Vice President. Paper checks of \$20,000 or more shall bear a signature as above plus one additional signature of a Board member who is an authorized signer on the Association’s financial accounts. However, a single Board member

who is an authorized signer on the Association's financial accounts may sign a paper check in an emergency if the Treasurer, Assistant Treasurer, Board President, and Board Vice President were unavailable; in such a case, the signer shall notify all available Board members and officers. A blank check shall be held in the Condominium safe for an emergency.

14. Payments, other than Paper Check Withdrawals, that are \$20,000 or more, shall be approved by email by a Board Member who has signature authority on the Association's financial accounts. This email approval is not required for: (1) monthly payments to the Landscape Contractor for Budget Category 32-1 Landscape Contracts; (2) quarterly payments for Category 37-1 Property, General Liability & Auto Insurance; and (3) payments to the Building Maintenance Contractor.
15. Debit Card—The Treasurer is authorized to obtain a debit card associated with an Association checking account to be used for transactions, such as online purchases, where a check, Automated Clearing House ("ACH") payment, or wire transfer is not accepted or is not the least cost alternative. The debit card would only be for the use of the Treasurer.

#### ***Payment of Assessments—Declaration, Section 11.7.***

Assessments shall be paid in such manner and on such dates as may be fixed by the Board of Directors. Unless otherwise provided, the annual assessments shall be paid in monthly installments due on the first business day of a month, and such monthly installments shall be late and the Unit Owner in default if not paid on or before the fifteenth (15th) day of the month due.

#### **Supplementary Policies**

1. The manner and date of monthly assessments shall be by ACH deposit or equivalent on the first business day of each month. Monthly assessments by new owners shall commence not later than the first business day of the third full month of ownership. The Board may charge a fee for noncompliance with these requirements.
2. The manner and date of special assessments shall be as determined by the Board of Directors.

***Association Records and Financial Records—Bylaws, Article VI, Section 7.***

The Association shall keep financial records sufficiently detailed to enable the Association to comply with the Condominium Act, the Declaration and these Bylaws. The Board may choose to have the financial records audited by an independent accountant, but an annual audit is not mandatory. Any year that an audit is not obtained, there shall be a financial review of the records by an ad hoc committee appointed by the Board and the results of this review shall be distributed to all Members. All Members of the Association and all mortgagees shall, upon written request, be entitled to inspect all books and records of the Association during normal business hours at the office of the Association or other place designated reasonably by the Board of Directors as the depository of such books and records.

**Supplementary Policies**

1. A monthly reconciliation of the Association's financial records with depository financial statements shall be performed by a person appointed by the Board. This appointee shall provide the Board President a monthly Reconciliation Affidavit with a copy to the Treasurer. If the appointee judges there to be a major reconciliation discrepancy, then the appointee shall also provide the Reconciliation Affidavit to all other Board members.
2. To comply with the Condominium Act, the Board shall make available to Owners a year-end income statement and balance sheet within 75 days of the end of the fiscal year. The year-end income statement shall include a line item for net gains and losses from investments, reflecting their changes in market values, and the year-end balance sheet shall show the market values of investments.

***Finance Committee—Bylaws, Article VI, Section 8.***

The Board shall establish a standing Finance Committee that provides recommendations for Board approval on financial matters and financial planning, recommends policies and guidelines to establish financial standards and procedures, oversees audits and financial reviews, coordinates with the Long-range Planning Committee, and assists with annual budget preparation.

**Supplementary Policies**

1. The Board shall establish, in January of each year, a standing Finance Committee composed of:
  - a chair of the Committee,
  - the Treasurer

- the chair of the Long-range Planning Committee, and
  - at least two additional at-large Committee members recommended by the Committee chair and approved by the Board.
2. When the Finance Committee develops the annual budget, additional members of the Committee shall be the following:
- all Board members,
  - as non-voting participants, the chairs of the Landscape Committee, Building Maintenance Committee, and Clubhouse Committee, and
  - as non-voting observers, candidates for the Board.
3. The Finance Committee shall have the following responsibilities:
- manage preparation of the Association's annual budget;
  - annually review the Capital Reserve Fund Long-range Plan to include the fixed monthly Capital Reserve Fund revenue sums to be incorporated in the budget for the next year;
  - monitor compliance with the fiscal management requirements contained in the Declaration of Beaverdam Run Condominium and its Bylaws and report its findings and recommendations to the Board;
  - manage an annual financial review or audit on the Board's behalf; and
  - before the start of each fiscal year, recommend to the Board targets and ranges of percentage allocations of moneys among specified depositories and investments of the Capital Reserve Fund and the Contingency Fund to be met by the end of the fiscal year; the Board shall approve or modify the recommended allocations.