

FCS Building Association Management Operations Policies and Practices

Effective Date: 08-JUL-11

Effect on Previous Action: Amends NV-95-40, FCA-PS-68-7-JUL-95; amended by NV-11-15 (08-JUL-11).

Source of Authority: Farm Credit Act of 1971, as amended (Act), and the FCS Building Association (FCSBA) Articles of Association and Bylaws.

THE FARM CREDIT ADMINISTRATION (FCA) BOARD HEREBY ADOPTS THE FOLLOWING POLICY STATEMENT:

The FCSBA was established to provide the facilities and related services for the FCA and its field offices. The FCSBA is owned by the banks of the Farm Credit System (banks) and is funded by assessments, rental income from commercial tenants, and other income. The original ownership interest of each bank was based on the bank's assets as a percentage of total Farm Credit System (FCS) assets on June 30, 1981. The FCSBA owns and operates the FCA headquarters in McLean, Virginia, and holds the leases and provides certain services and furnishings for FCA field offices. The FCA Board has sole discretionary authority under section 5.16 of the Act to approve the plans and decisions for such building and facilities. In order to carry out this authority and to preserve the FCA's arms-length relationship with the banks, the Articles of Association and Bylaws of the FCSBA grant the FCA Board the responsibility to oversee the affairs of the FCSBA.

The purpose of this policy statement is to outline general parameters and policies for various operational practices of the FCSBA that are supplementary to the FCSBA Bylaws.

A. FCA BOARD RESPONSIBILITIES

Board Responsibilities. As outlined further in this policy statement, the FCA Board is responsible for items including, but not limited to, approval of all budgets and subsequent changes in object class limitations, signature authorities for financial expenditures, and long-term investment decisions. The FCA Board concurs in the development of performance standards, goals and pay scales for the FCSBA President as provided by the FCA Chairman and Chief Executive Officer (Chairman). Additionally, all contracts in excess of \$150,000 per year, or those that cover the selection of outside auditors, property management services or the commission of special studies *with a cost in excess of \$5,000* that were not approved during the annual budget process require *the approval of the FCA Board*.

Chairman's Responsibilities. The Chairman shall be responsible for coordinating the FCA Board's involvement in, and responsibilities for, the operation of the FCSBA, including: (1) developing performance standards and pay scales for the President of the FCSBA and appraising the President's performance with the concurrence of other FCA Board Members, (2) reviewing periodic financial and operating reports, (3) providing procedures as necessary concerning the FCA staff's relationship with the FCSBA, and (4) reviewing such other matters as the Chairman may deem advisable for the purpose of bringing such matters to the attention of the FCA Board. The Chairman may delegate these

responsibilities to one or more FCA staff, as he or she deems advisable, except those responsibilities related to pay and performance.

B. FCSBA PRESIDENT

General Signature Authority. As required by Article V, Section 2 of the FCSBA Bylaws, in addition to member certificates, the FCA Board authorizes the FCSBA President to sign general correspondence and contracts deemed necessary for the administration of FCSBA activities. The FCSBA President must get Board approval before changing the signatory authority for checks and before changing any banks with which the FCSBA does business.

Duties. The FCSBA President reports to the FCA Board and is generally responsible within the context of governing policies for all activities necessary to: (1) manage FCSBA support to FCA, (2) manage the assets of the FCSBA, and (3) understand and consider the interests of the banks. Specific responsibilities include budget preparation and execution; planning; financial reporting and control; preparation of quarterly cash flow reports; supervision of inventory and supporting schedules for all fixed assets (furniture, fixtures and equipment); maintenance of management objectives schedules; supervision of the telecommunications system; the purchase and contracting for all supplies and services; records management; necessary correspondence; public relations activities in consultation with the FCA Office of Congressional and Public Affairs; personnel supervision and evaluation; the leasing and management of all space in the Farm Credit Building; site selection and lease negotiation for all FCA Field Offices; investment management; preparation and administration of all policies and operating procedures; engineering oversight; construction management; and preparation of all monthly, quarterly and annual reports required by the FCA Board. The FCSBA President shall coordinate these activities with the FCA Liaison as appropriate or required.

Standard Operating Procedures. In addition to those duties outlined under Article V, Section 2, of the FCSBA Bylaws and this Policy Statement, the FCSBA President is authorized to issue Standard Operating Procedures (SOPs), as he or she deems appropriate, in an effort to carry out the mission of the FCSBA provided that each SOP is reviewed by the FCA Board in advance. The President shall maintain all SOPs in a manner that reflects current policies and practices. SOPs will be filed with the Secretary to the Board, the FCSBA and others as requested.

Periodic Reports. The FCSBA President shall submit such periodic reports and proposals to the FCA Board and Liaison as may be necessary to facilitate budgets, assessments, audits, finances, plans, investments, reserve policy and accounting procedures that support the needs of the FCA Board and the banks as owners of the FCSBA. The FCSBA President shall normally report to the FCA Board at least quarterly. At a minimum, the report shall include:

1. A cash statement of operations, an explanation of budget variances, and month-to-date cash reconciliation report. This report will include specific notations of any expected reallocations of funds requiring Board approval.
2. A status of all projects/building improvements that are planned, including current accounting of actual costs of each project.
3. A summary of the status of reserve accounts and investments including documentation as available demonstrating compliance with investment policies.
4. A comprehensive Management Objectives tracking report outlining the status of issues and projects

resulting from a combination of one or more sources such as audit and examination recommendations, FCA Board directives, as well as management initiatives.

5. Other matters such as insurance, leasing and contract performance issues that may be timely for the particular reporting period.

Annual Report. The FCSBA President shall prepare an annual report on the operations of the FCSBA. The draft of the report shall be provided to the FCA Board for its review within approximately 30 days of receiving the final report from the independent auditors. After FCA Board review, the report shall be provided to the banks and may be provided to others who have an interest in FCSBA affairs. Although other reports to the banks may be warranted from time to time, the Annual Report shall serve as the primary report to the FCS. The report shall include:

1. A discussion of significant issues and accomplishments.
2. Audited financial statements and reportable conditions.
3. A discussion of the previous year's and current year's budget.
4. A discussion of basic and supplemental services provided to FCA by the FCSBA including an estimate of market and actual values of those services.
5. A discussion of non-budgeted expenditures, that have been reimbursed by the FCA.

C. FCA LIAISON

Duties. The FCA Chief Executive Officer appoints the Liaison to the FCS Building Association. The FCA Liaison facilitates and coordinates the FCA's needs with the FCSBA in such areas as office renovations, internal moves, telecommunications services, field office support, and matters concerning building security and Emergency Preparedness. The FCA Liaison provides an internal control function through the countersigning of certain categories of checks as designated by the FCA Board. Additionally, the FCA Liaison reviews FCSBA proposals that come before the FCA Board, and provides counsel regarding issues on which the FCA Board must decide or provide direction. The FCA Liaison is also responsible for assuring that FCA operations, as appropriate, comply with FCSBA policies and practices as well as FCA guidance relating to the FCSBA. Finally, the FCA Liaison shall review monthly cash reconciliation reports as provided by the FCSBA President and report irregularities, as appropriate.

D. ANNUAL AUDIT AND MANAGEMENT CONTROLS

Annual Audit and Management Controls Review. As provided by Article IV, Section 9, of the FCSBA Bylaws, the FCSBA shall produce audited financial statements on an annual basis. A review of material internal control procedures shall be included in the audit process on a periodic basis.

E. FINANCIAL MANAGEMENT

Budget Philosophy. It is FCA Board policy to ensure that every effort is made to minimize operating expenses without jeopardizing the banks' investment in the assets that are managed. Approved budgets are planned and implemented in consideration of a series of policy objectives as outlined in this statement and always in an effort to balance income and expenses.

Budget Development Time Frames. FCSBA budgets are prepared on a calendar year basis. Each November 1, the FCSBA President shall provide the proposed budget for the next calendar year to the FCA Board for its review and comment. With FCA Board concurrence, the proposed budget may be made available to the banks for further comment.

Operating Revenues. The FCSBA receives annual operating revenues from (1) bank assessments, (2) office rental income from private commercial tenants, (3) other income from operating balances, and (4) reserve account transfers as necessary.

Operating Expenses. Operating expenses are budgeted using the appropriate object classifications as follows, which may be modified with FCA Board approval:

- FCA Field Office Rent
- Taxes and Contract Services
- Maintenance and Repair
- Utilities
- Salaries and Benefits
- Professional and Consulting Fees
- Property Management Fees
- Other Expenses

As a part of the draft budget proposal to the FCA Board on or before November 1st every year, the FCSBA President shall provide an individual expense breakdown for each item within the object class. This breakdown shall include the actual expense from the previous year, the estimated expense for the current year, and the projected expense for the proposed year. Unanticipated and emergency expenses during the course of the year as well as expenditures beyond amounts approved for object classes may be funded out of the operating reserve subject to FCA Board approval.

Capital expenditures funded by transfers from the component reserve account should be shown separately with a breakdown of individual expenditures.

Operating Reserves. In consideration of liquidity needs as well as unanticipated expenses, each approved budget shall include the sum equivalent to 15 percent of the annual operating expense as operating reserves.

Component Reserve Account. To reserve for capital replacement items and repairs to the McLean facility, the FCSBA shall maintain a component reserve account which is separate from operating funds and reserves. The funding for this account shall be initially based on the Capital Reserve Study of June 1, 2005, which is then to be updated every 10 years by an independent engineering assessment. The policy objective is to ensure adequate funding, on a net present value basis, to cover up to a 10-year capital repair and replacement program to be updated, as necessary, with each approved budget.

Assessments. To ensure the maintenance of minimum "cash on hand," FCSBA assessments are based on bank assets as of June 30, and issued quarterly consistent with the FCSBA Bylaws. After taking interest, rental, and other revenue into consideration, budgeted annual assessments must be sufficient to fund the operations of the FCSBA, including the ability to hold operating reserves equal to 15 percent of expenses as well as component reserves consistent with FCSBA policy.

Adjustments to assessments can occur subject to FCA Board approval when total year end "cash and cash equivalents" exceed or are below operating and component reserve requirements. Adjustments are

normally considered for third quarter assessments and are based upon the previous year's audited financial statements. Earnings, if any, are distributed through this process in lieu of direct payment.

Investments. The FCSBA invests its funds in an effort to achieve maximum yield consistent with liquidity needs and investment safety. For short-term accessibility, operating reserves and other operating "cash on hand" may be invested in short-term money market accounts, certificates of deposits of federally insured institutions, and short-term instruments of the U.S. Government or commercial paper rated P-1 or A-1 by Moody's and Standard and Poor's, respectively. Operating reserves investment decisions are made by the FCSBA President consistent with this policy.

With the goal of achieving the best long-term returns while minimizing risk, component reserves are invested solely in instruments backed by the U.S. Government and agencies of the U.S. Government. The maturities and amounts of component reserve investments shall be generally consistent with the anticipated liquidity needs of the FCSBA capital replacement and repair program. Component reserve investment decisions require FCA Board approval .

Budgeting for Reimbursable Expenses. The FCA regularly reimburses the FCSBA for telecommunications and other expenditures on a cost recovery basis. Because there is no positive or negative financial impact on the FCSBA, these transactions are handled on a "net" basis and thus not included in the budget.

Budget Execution. The FCSBA President shall administer the annual budget as approved by the FCA Board. Expenditures during the course of the year that would exceed the object class budget require prior FCA Board approval. Exceptions to this policy are made in the event of emergency or the funding of accrued employee benefits. Expenditures in these cases will be brought to the FCA Board in the form of an Executive Summary for approval within 10 business days of occurrence. In considering its approval, the FCA Board has the option of either adjusting other object classes, utilizing the operating reserve, or taking other action, as it deems appropriate.

F. CONTRACT MANAGEMENT

General. In accordance with Article IV of the FCSBA Bylaws, it is the policy of the FCA Board that all contracts issued on or on behalf of the FCSBA be:

1. Competitively bid with a minimum of three bids, when in excess of \$15,000.
2. Obtained with a minimum of three price quotes, when less than \$15,000, and more than \$2,500.
3. Generally awarded to the lowest bidder meeting contract specifications except in those instances where the differences in cost are considered negligible relative to a particular benefit offered by a higher bid.
4. Reviewed and approved by the FCA Board when in excess of the amount of \$150,000, or for the purpose of outside auditors, property managers, or special studies that were not approved during the budget process.
5. Retained in file a minimum of 3 years.
6. When possible, bid in conjunction with the budget year.

Exceptions. Notwithstanding the above requirements, the FCA Board has the authority to make exceptions, as it deems appropriate to the circumstances. Additionally, competitive bidding is not required if the circumstances warrant immediate resolution or are vendor specific to equipment, in which case the FCSBA President will provide the FCA Board with a detailed report of the surrounding circumstances in 10 business days.

Contract Timeframes. Recurring contracts are normally for annual terms; however, when deemed cost effective, the FCSBA may allow terms up to 3 years. Obtaining best and final offers from bidders is encouraged.

Approval Authorization. The FCSBA President is authorized to approve contracts consistent with these guidelines and the FCSBA SOP. The FCSBA President may re-delegate up to \$50,000 of contracting authority to the building property manager.

Contract Performance. The FCSBA President shall insure that adequate systems are in place to measure, administer, and report on the performance of FCSBA contracts.

G. ASSET MANAGEMENT

Personal Property. The FCSBA President shall insure that adequate methodologies and systems are in place to ensure that FCSBA property is effectively accounted for on a periodic basis.

H. THE FCSBA AS A SYSTEM INSTITUTION

Examination. The FCSBA is examined as provided by the Act. The scope of examination shall be generally consistent with the level of risk deemed associated with the operating practices of FCSBA management.

Assessments for Examination. The FCSBA will be charged annually for assessments consistent with FCA regulation found in 12 CFR 607.4, "Assessment of other System entities."

Liquidation by System Request. Should the Boards of the banks adopt, pursuant to Article IX of the FCSBA Articles of Association, a resolution to dissolve and liquidate the FCSBA, the dissolution and liquidation will be subject to, and conducted in accordance with, the Act and the regulations promulgated thereunder.

I. FCSBA SERVICES TO THE FCA

Basic Services. The FCSBA provides space to the FCA headquarters in McLean, Virginia, and leases space on behalf of FCA for its field offices. Basic services provided to the FCA are similar to what is typical of rented office space and include, but are not limited to, such items as utilities, janitorial service, repairs for normal wear and tear, parking and appropriate landscaping as well as amenities which are available to all tenants and have the effect of maintaining property values and/or enhancing rental income.

Supplemental Services. In addition to providing basic services, the FCSBA will, on a case-by-case basis, provide certain supplemental support services related to FCA's housing needs under the following kinds of circumstances:

1. The FCSBA can provide the service on better terms than the FCA.

2. The service, if not provided by the FCSBA, could potentially adversely affect the aesthetic or other value of property, systems, building infrastructure, the health and safety of occupants, or the occupancy level of commercial tenants.
3. The capacity exists for the FCSBA to provide the service within the context of its employee expertise and/or its overall responsibilities to all tenants.
4. By providing the service, an advantage inures to the benefit of the FCS that would not otherwise occur.
5. An FCA Board determination that the service will be of particular benefit to the FCA, the FCS or the public.

As deemed necessary, the FCSBA President shall issue SOPs prescribing operational or other details of FCSBA services provided to the FCA.

Non-Reimbursable and Reimbursable Services. Whether or not the FCA will reimburse the FCSBA for a supplemental service will generally be determined as follows:

1. Reimbursement is not required for support provided by the FCSBA when resources are available within FCA Board approved budgets for the FCSBA and one or more of the criteria for supplemental services expenditures outlined above have been met.
2. Unless otherwise determined by an FCA Board action, supplemental support services requiring resources beyond that available within the FCSBA budget will require reimbursement.

Reimbursements in excess of \$10,000 that occur on an ongoing basis will require a written Memorandum of Understanding between the FCA and the FCSBA outlining the terms and conditions of the services provided and reimbursement. One time or minor recurring reimbursements may be handled by purchase orders. Reimbursable expenses shall be determined on an actual cost basis or a recognized methodology to achieve the goal of fully reimbursing the FCSBA on the transaction.

DATED THIS 8th DAY OF JULY, 2011

BY ORDER OF THE BOARD

Dale L. Aultman
Secretary to the Board