I: PURPOSE:

It shall be the responsibility of the Board of Directors of Lake of the Woods Association (LOWA), a home owners association, to determine the repair and replacement risk of the assets owned and maintained by the association as required by its Governing Documents. It shall be the Board’s responsibility to create and maintain adequate reserves to provide for the orderly repair and replacement of the common areas so as to minimize the risk to the membership of levying special assessments, deferred maintenance or unfunded losses. All funding and expenditures will be approved by the Board of Directors annually, during the budget process. The “RESERVE FUND BALANCE” (RFB) shall be Board Restricted. It shall be the policy of the Lake of the Woods Association to:

A. Maintain a “Reserve Fund Balance” (RFB) that should not fall below $800,000 in any given year. Should unforeseen circumstances result in the Reserve Fund Balance falling below $800,000; the Board of Directors must add sufficient funds to restore the balance to the required minimum level the next fiscal year. It shall require four (4) members of the Board of Directors to approve drawing down the Reserve Fund Balance below the $800,000 threshold level. This level of funding reasonably protects the association members from risk of special assessment and deferred maintenance.

B. The Reserve Fund Balance shall consist of six (6) separate and distinct accounts, namely: (1) Replacement Reserves (2) Road Reserves (3) New Capital Reserves (4) Dam Reserves (5) Contingency Reserves and (6) Lakes Reserve.

1. Replacement Reserves should not be used as operating funds or major capital enhancements. These funds are to cover repairs, like kind replacement, restoration and maintenance of all components as outlined in the reserve study/analysis.

2. The Road Reserve Fund will cover major road repairs and culverts.

3. The New Capital Reserve Fund will cover major new capital projects.

4. The Dam Reserve Fund will cover major repairs to the Veteran’s Dam and the Keaton Dam.
5. The Contingency Reserve Fund is a reserve that is set aside to
cover unexpected expenses that are outside the range of the
operating budget. It is a protection against possible loss in
the event of an emergency situation. The funds can be utilized in
a number of ways such as the need to cover an operating deficit
or any unpredictable and or unforeseen financial need.

6. The Lakes Reserve Fund will cover the cost of maintaining the
general health of both the Main Lake and the Keaton’s Lake. These
funds are set aside to support the Lakes Management Plan which
addresses (a) Water Quality, (b) Sediment Control, (c) Invasive
Weeds (d) Fish Reproduction and (e) Watershed Controls.

II: FUNDING:

The primary reserve funding strategy will be based on the
"Threshold Funding Method", which sets the fund’s minimum balance
at a predetermined dollar amount. For LOWA, this amount is
$800,000. The total contribution to the Reserve Fund Balance for
Fiscal 2010 was $1,124,192. It is expected that in future years,
due to inflationary factors, the contribution to reserve (CTR)
may need to be adjusted higher. The Reserve Fund Balance (RFB)
will be funded from annual assessment. The amount will be
determined when the budget is constructed and approved by the
Board of Directors each year. Road fees will be added to the Road
Reserve Balance on a monthly basis. Investment income from the
"RESERVE FUND" will be allocated to the respective underlying
reserve account balances on a monthly basis. Any operating budget
surplus at the end of the fiscal year will be added to the
Contingency Reserve Fund Balance.

III: SPENDING:

The Board of Directors shall not expend funds designated as
replacement reserve for any purpose other than for repair,
restoration, replacement or maintenance of major components which
the association is obligated to repair, restore, replace, or
maintain and for which these funds were established. Funds may
only be authorized for repair or replacement of the items listed
in the reserve study.

It shall require four (4) members of the Board of Directors to
authorize a temporary transfer of monies from one underlying
reserve account to the other. Any transfers made must be recorded
in the board’s minutes explaining the reasons why the transfer is
needed and describing how and when the monies will be repaid,
interest free. The Board shall exercise prudent fiscal
management in maintaining the integrity of the overall "Reserve
Fund Balance" as well as providing transparency to the members.
The Board of Directors may expend up to $10,000 from the Contingency Reserve Fund in a given year, without repayment, provided the action is recorded in the Board's minutes.

Repairs or replacements exceeding $3,500 per item that are determined to be an emergency by the General Manager, shall be submitted in writing to the Board of Directors in a timely manner. If it should become necessary to replace or purchase unplanned capital items that are not in the budget, it would require the approval of four (4) members of the Board of Directors to utilize the Contingency Reserve Fund Balance for such items.

IV: REPLACEMENT RESERVE STUDY:

An on-site replacement reserve study shall be updated by an independent qualified Reserve Study Professional every five years or more frequently when determined necessary by the Board of Directors. Interim yearly updates will be accomplished in-house using available resources.

Projects or purchases that are anticipated in the reserve study/analysis should be pre-approved in the annual budget.

LOWA BOARD APPROVED 11/6/10
AMENDED 4/18/12
Total Reserve Fund as of 2/28/2012 was $2,374,220. This amount should not fall below $800,000 in any given year.

1. Replacement Reserves will cover repairs, like kind replacement, restoration and maintenance of all capital components as outlined in the reserve study/analysis.
2. New Capital Reserve will cover major new capital projects.
3. Dam Reserve will cover major repairs of the Veteran's Dam and the Keaton Dam.
4. Road Reserve will cover major road repairs and culverts.
5. Contingency Reserve is a reserve fund that is set aside to cover unexpected expenses that are outside the range of the operating budget. It is a protection against possible loss in the event of an emergency situation. The funds can be utilized in a number of ways such as the need to cover an operating deficit or any unpredictable and or unforeseen financial need.
6. Lakes Reserve will cover the cost for maintaining the general health of both the Main Lake and the Keaton's Lake.

Amended 4/18/2012