Administrative Resolution 2014-2

Repair and Replacement Reserve Fund Policy

Lake of the Woods Association

Purpose:

To explain the basis for the Repair and Replacement Reserve Fund (Reserve Fund) for the repair and replacement of the Common Areas including all amenities at Lake of the Woods Association (LOWA), the method of funding the reserve, the categories that comprise the Reserve, the items to be covered by the Reserve, restrictions on the Reserve balance and the authority to spend money from the Reserve.

Background:

LOWA was established primarily as both a residential and recreational lake community by the developer who transferred ownership to LOWA (a Home Owners Association) that offered amenities, e.g. golf course, lakes and marina, common areas, parks, roads, etc. for the benefit of its members. In addition LOWA provided adequate ingress and Common Area security for its members. LOWA follows the guidance of the Virginia Property Owners’ Association Act (POAA) to reserve money (cash), on an annual basis, in order to have sufficient cash funds available to maintain, at a very good level, the property, lakes, buildings and grounds, roads, equipment and amenities received from the developer, by replacing these assets and for the non-recurring repairs and maintenance to these assets and common areas. The POAA requires an association to conduct at least every five years a study to determine the necessity and amount of reserve required and to include a statement in the annual budget on the extent to which the association is funding its reserve obligation. Reserves for New Assets (including significant additions and modification to existing assets), and for a Contingency Fund, and including significant additions and modification to existing assets, are outside the scope of this policy and are not part of the Reserve Fund.

Definitions:

Building, equipment, property and major improvements or additions are as defined in normal accounting definitions. Major repairs and replacement to property, buildings and equipment pertains only to existing assets recorded on the books of LOWA in accordance with generally accepted accounting principles. Significant footprint additions to existing buildings (exceeding 20% of the initial size) and significant land improvements are not considered to be replacement or repair of existing recorded assets in the accounts of LOWA but are considered new additions (assets), and thus are not included in or funded by the Reserve Fund. Amounts currently set aside in the Reserve Study for the repair and replacement of a building and its related components can be transferred to the New Capital Fund by Board vote and used in the building of a new replacement structure and the amount (balance) of such funds for the repair and replacement of the building and its related components will be deleted from the Reserve Study and the Reserve’s restricted cash balance.

The Reserve is a single reserve fund recorded in the Members’ Equity section of the Balance Sheet with a corresponding amount recorded as Restricted Cash on the Balance Sheet. It is
comprised of four categories as designated by the Board of Directors: (1) Equipment, Buildings and Grounds; (2) Roads; (3) Dams; and (4) Lakes. An amount of cash equal to the Reserve Fund is to be segregated on the Balance Sheet in a single account called Restricted Cash, distinguished from other accounts designated as restricted cash for other types of reserves. The Reserve Fund guidelines for the categories are:

1. Equipment: to be used for the replacement of existing assets or for major, non-recurring repairs and maintenance to such assets as listed in the reserve study. Buildings and Grounds: to be used for repairing or replacing major components or for improving the buildings and grounds.

2. Road: to be used for paving, major repairs and modifications of the roads, including major repairs and renovations to the culverts that increase the value of the property.

3. Dams: to be used for major repairs to the Veteran’s and the Keaton’s Dams.

4. Lakes: to be used for maintaining the general health of both the Main Lake and Keaton’s Lake. This would include such items such as bulkheads and marinas that could affect the water quality of the lakes, culverts and ground water management.

Responsibility:

It will be the responsibility of the LOWA Board of Directors to state the process to be followed in determining the proper level of reserves needed to meet the fiduciary requirement of maintaining the amenities, property, buildings, roads, and equipment of LOWA at a very good level in order to maintain and increase the value of the members’ property at LOWA. It will be the responsibility of the LOWA Board of Directors to establish the restricted Reserve Fund account, and its individual categories, and ensure that they are recorded in the accounting records of LOWA.

The Board will authorize and fund a Replacement Reserve Study at least every five (5) years as required by Virginia law. This study will be done by recognized outside consultants proficient in the field of replacement cost studies.

Procedure:

The General Manager of LOWA, under the direction of the Board of Directors, is delegated the responsibility to ensure all assets of LOWA are properly recorded on the accounting records of LOWA. The General Manager and his staff will assist the Board in periodic studies of the replacement cost of the assets and amenities of LOWA by outside consultants.

The Board will apply the “Cash Flow Funding Method” to fund the Reserve each year as part of the approved budget. The Cash Flow Funding Method calculates the Minimum Annual Funding of Replacement Reserves that will fund Projected Replacements identified in the Replacement Inventory from a common pool of Replacement Reserves and prevents Replacement Reserves from dropping below a Minimum Recommended Balance.

The amount to be funded yearly will be based upon the Reserve Study currently in effect, which the General Manager, working with the outside Reserve Specialist, will update yearly by October
1. The Finance Committee and Planning Committee meet jointly to discuss the Contribution to Reserves with the General Manager as part of their review of the proposed budget. The results of this review will be presented to the Board of Directors in a timely manner for their approval. The Board will maintain the minimum cash balance in the Reserve Fund as stipulated in the Reserve Study. In addition, all Road Fee Income received during the year will be transferred from the operating cash account to the Restricted Cash account for the Reserve Fund and will be incremental to the amount of required funding stated in the Reserve Study. All Reserve Funds are to be included in the Restricted Cash account of LOWA’s accounting records, and any interest earned on this Restricted Cash is to be added to the Reserve Fund balance.

Should unanticipated major repairs or asset replacements be needed before their planned time, the Board may vote to use funds in the restricted Reserve Fund balance that may bring it below the minimum stated level. This would be done in lieu of a special assessment or obtaining external financing. The Board should strive to bring the Reserve Fund balance back to the minimum level over the next two (2) budget cycles through the normal annual assessment in an amount needed to bring the Reserve level to the required minimum amount or employ other reasonable financial means to meet this requirement.

Disbursements from Reserves:

The Board of Directors is responsible for ensuring that all disbursements from the Reserve Fund are in accordance with this policy and for the purposes allowed by this policy. The Reserve Fund is not to be used to pay for normal operating costs and expenses; for normal repair and maintenance; or for property, buildings or equipment that do not currently exist. Disbursements will be only for those items included in the most recent Reserve Study and included in the annual capital budget for that year as approved by the Board of Directors.

The Board of Directors can vote to authorize repairs and replacements of property, buildings and equipment that are not in the annual approved budget but are in the Reserve Study.

Effective Date:  June 7, 2014

LAKE OF THE WOODS ASSOCIATION, INC.

By:  

James Walsh, President

ATTEST:

I, as Secretary for Lake of the Woods Association, Inc., hereby attest that the foregoing Administrative Resolution 2014-2 was adopted by the Board of Directors at a duly-held and noticed Board of Directors meeting held on the 7th day of June, 2014.

Louisa Rucker, Secretary