Lake of the Woods Association, Inc.
Administrative Resolution 2015-3
Regarding Unrestricted Operating Cash Policy

WHEREAS, the Board of Directors desires to set a policy for determining the end of fiscal year surplus or deficit for operating cash.

RESOLVED, the Board of Directors sets the following policy concerning Unrestricted Operating Cash.

UNRESTRICTED OPERATING CASH POLICY

PURPOSE:

To define and compute the unrestricted operating cash balance at the end of each fiscal year (April 30), and establish a minimum cash balance, including a cushion amount, to maintain a level of financial health for the operation of our community for each fiscal year. In addition, this policy will provide alternatives for disposition of a computed unrestricted cash surplus, and the funding of any computed unrestricted cash deficit.

BACKGROUND:

It is imperative that in each fiscal year Lake of the Woods (LOWA) stands on its own from an Operating Cash point of view. In other words, Revenues generated in a fiscal year must produce sufficient cash to settle all expense obligations for the same fiscal year. If revenues exceed expenses for the fiscal year, then LOWA has operated at an operating cash surplus. If expenses, net of depreciation exceed revenues then LOWA has operated at an operating cash deficit. Once the calculation has been completed the Board of Directors must make a decision regarding the disposition of the operating cash surplus or the funding of the operating cash deficit.

RESPONSIBILITY:

The Director of Finance will compute the unrestricted operating cash balance at the end of each fiscal year without regard to cash that has been received from members in advance of the end of the fiscal year for the upcoming fiscal year. Once the computation is complete, the amount of operating cash will be compared to the remaining accounts payable and accrued expenses for the closing fiscal year to determine if a surplus or (deficit) exists. Prior to submitting the calculation to the General Manager, the Director of Finance will carefully scrutinize other Current Assets and Liabilities to determine if large transactions out of the ordinary have an impact on the calculation for the current year requiring abnormal adjustment. The Director of Finance will then submit the result of the computation to the General Manager and together they will review the alternatives for disposition and make a recommendation to the Board. The recommendation report will then be transmitted to the Board with a copy to the Finance Committee for review and comment no later than June 15 each year. The Board will review the General Manager’s recommendation along with any comment from the Finance Committee and approve a method on disposition or funding once the Auditors have finalized their report on the LOWA financial statements for the year.
In addition to the computation of the Year End Unrestricted Cash Surplus Deficit, the Director of Finance will make a computation for the 12 months of the year just ended to determine specifically if enough cash was generated in the fiscal year to settle all cash obligations of the fiscal year. The basic calculation will begin with Net Income per Generally Accepted Accounting Principles (GAAP), then add back Depreciation, and subtract Contribution to Reserves. It may also be necessary to make other adjustments. The result of the computation will confirm the Surplus (Deficit) computed in the first calculation.

**CALCULATION:**

**Definitions**
The internal Year End Balance Sheet (unaudited) will be prepared with the cash surplus (deficit) in mind.

Cash will be shown on two lines as follows:

- Cash from FY AA-BB (Closing Fiscal Year)
- Cash from FY XX-YY (Upcoming Fiscal Year)

Accounts Payable will be shown on two lines as follows:

- Accounts Payable and Accrued Expenses
- Accounts Payable Capital Projects

Operating Cash Cushion will be defined as 33 1/3 % of Accounts Payable and Accrued Expenses

Minimum Unrestricted Operating Cash Balance will be defined as the sum of Accounts Payable and Accrued Expenses plus Operating Cash Cushion.

**Unrestricted Operating Cash Surplus (Deficit) will be defined as:**

- Cash from FY AA-BB (Closing Fiscal Year)
  - LESS
- Minimum Unrestricted Operating Cash Balance
  - EQUALS
- Unrestricted Operating Cash Surplus (Deficit)

**ALTERNATIVES:**

**Unrestricted Operating Cash Surplus**

In the case of an Operating Cash Surplus, the General Manager will consider the following alternatives or a combination thereof in forming a recommendation for Board action:

- The Surplus cash may be transferred to a Reserve or Reserves
- The Surplus cash may be reserved for a special project
- The Surplus cash may be retained in Unrestricted Operating Cash
- The Surplus cash may be used to reduce a future assessment
- The Surplus cash may be used to refund or credit member accounts.
Unrestricted Operating Cash (Deficit)
In the case of an Operating Cash Deficit, the General Manager will consider the following alternatives or a combination thereof in forming a recommendation for Board action:

- The cash Deficit may be funded from the Contingency Reserve
- The cash Deficit may be funded from one of the Reserves, Repair & Replacement, Contingency or Infrastructure Improvement.
- The cash Deficit may be funded through a reduction in spending for the upcoming year
- The cash Deficit may be funded through a future assessment
- The cash Deficit may be funded through external financing
- The cash Deficit may be funded through a Special Assessment

INCLUSION IN UPCOMING BUDGET:

The GM and the Finance Director will ensure the approved Budget Document for the upcoming year shows the result of the computation of Unrestricted Operating Cash Surplus (Deficit) and the Board’s final approval on the method of disposition or funding.

Effective: Immediately

LAKE OF THE WOODS ASSOCIATION, INC.

By: __________________________

J. Michael Rugless, President

ATTEST:

I, as Secretary for Lake of the Woods Association, Inc., hereby attest that the foregoing Administrative Resolution 2015-3 was adopted by the Board of Directors at a duly-held and noticed Board of Directors meeting held on the 6 day of June 2015.

Loulisa Rucker, Secretary