Lake of the Woods Association, Inc.
An Administrative Resolution 2019-11
Reserve Policy for Lake of the Woods Association, Inc.

WHEREAS, the Board of Directors desires to establish new terminology and new reserve requirements for funding, disbursement, and reporting.

RESOLVED, the Board of Directors hereby restates and establishes the following policies regarding the Reserve of the Association.

PREAMBLE

This Reserve Policy encompasses four separate reserves maintained by the Association:

- Repair and Replacement Reserve (R&R Reserve)
- New Assets and Improvement Reserve (NAIR Reserve)
- Contingency Reserve (C Reserve)
- New Construction and Renovation Fee Reserve (NCRF Reserve)

SECTION 1

REPAIR AND REPLACEMENT RESERVE

Purpose:

To explain the basis for the Repair and Replacement Reserve (R&R Reserve) 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.
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 pertain 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 infrastructure improvements (assets), and thus are not included in or funded by the R&R Reserve. 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 Asset and Improvement Reserve 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 removed from the Reserve Study and the Reserve’s restricted cash balance.

The R&R Reserve will be recorded on the Board Restricted line in the Members’ Equity section of the Balance Sheet. In addition, an amount of cash equal to the R&R Reserve is to be segregated on a single line in the Board Restricted Investments Section of the Balance Sheet and distinguished from other reserves in that section. The R&R Reserve is comprised of four categories as designated by the Board of Directors: (1) Equipment, Buildings and Grounds; (2) Roads; (3) Dams; and (4) Lakes. The Reserve 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. Roads: to be used for asphalt paving, major repairs and modifications of the roads, including major repairs and renovations to the stormwater management facilities including culverts and roadside ditches to extend the useful life of the property.

3. Dams: to be used for major repairs to the Veterans’ Dam and the Keatons Dam to extend the useful life of the dams.

4. Lakes: to be used for maintaining the general health of both the Main Lake and Keatons Lake. This would include items such as bulkheads and marinas that could affect the water quality of the lakes.

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 “…further and promote the community welfare of property owners in the Subdivision.” (Ref. Restrictive Covenants 12.B) It will be the responsibility of the LOWA Board of Directors to establish the restricted R&R Reserve 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 once every three (3) years. Virginia law requires reserve studies at least every five (5) years. This study will be done by recognized outside consultants proficient in the field of replacement cost studies, preferably Reserve Specialists credentialed by the Community Association Institute.

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 R&R Reserve each year as part of the approved budget. The Cash Flow Funding Method calculates the Minimum Annual Funding to fund Projected Replacements identified in the R&R Replacement Inventory from a common pool of R&R cash Reserves and prevents R&R cash 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 its approval. The Board will maintain the minimum cash balance in the R&R Reserve as stipulated in the Reserve Study. In addition, cash proceeds in excess of $1,000 from the sale of Reserve Study capital components will be deposited directly into the R&R Reserve, if less than $1,000 the cash will remain in the operating cash account.

The R&R Reserve will be listed separately in the Board Restricted Investments section of the Balance Sheet, and any interest earned on this Restricted Cash will be added to the R&R Reserve balance.

Should unanticipated major repairs or asset replacements be needed before their planned time, the Board may vote to use funds in the restricted R&R Reserve that may bring the balance 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 R&R Reserve balance back to the minimum level over the next two (2) budget cycles through the normal annual assessment in an amount needed to restore 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 R&R Reserve are in accordance with this policy and for the purposes allowed by this policy. The R&R Reserve 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 Spending Plan for that year as approved by the Board of Directors. The exception will be major projects of an operating expense nature the Board will approve from time to time such as the roadside ditch improvement program of the Lakes Management Improvement Plan whereby the preferred method of financing or collecting the required cash for the project is through the Reserve Study which will allow the Association to collect the required cash through the Contributions to Reserves rather than the Operating Budget in the year the project will be accomplished.

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.

SECTION 2

NEW ASSET AND IMPROVEMENT RESERVE

Purpose:

To establish a policy on the process for setting aside funds to acquire new or improve existing assets, that is, assets that do not currently exist and are not included in the formal Reserve Study or accounting records of LOWA as well as to fund significant footprint additions to existing buildings (exceeding 20% of the initial size) and significant land improvements. Priority is given to projects that rectify a lack of capacity in current facilities rather than acquiring distinctly new assets or amenities.

Background:

The Board recognizes the need will arise for LOWA to acquire new assets that will benefit the community. Since it is not possible to know exactly what these assets will be, LOWA will set aside some restricted funds to accommodate the purchase of such new specifically identified assets.

Responsibility:

It will be the responsibility of the LOWA Board of Directors to state the process to be followed in determining what new assets LOWA may acquire that would benefit the community to "further and promote the community welfare of property owners in the Subdivision." (Ref. Restrictive Covenants 12.B) It will be the responsibility of the LOWA Board of Directors to establish the New Asset and Improvement Reserve account to be recorded in the accounting records of LOWA.

Procedure:

The General Manager of LOWA, under the direction of the Board of Directors, is delegated the responsibility to ensure all new assets of LOWA are properly recorded in the accounting records of LOWA.
The amount to be funded for the acquisition of new assets will be proposed by the General Manager to the Board, and the amount to be established and maintained must be approved by the Board. A new asset and improvement project may be proposed at any time of year by a Director, the GM, a Committee or a Member. However, as a general rule to enable effective communications to the membership, those proposing new asset and improvement projects must do so before September 1 in the fiscal year prior to the year in which the project is to be first funded. The Board and GM have the prerogative to add new projects after September 1 as part of the budget process. (See New Asset and Improvement Project Communication Policy for more information.)

The New Asset and Improvement Reserve will be listed separately in the Board Restricted Investments section of the Balance Sheet and any interest earned on this Restricted Cash will be added to the New Asset and Improvement Reserve balance.

All cash proceeds from the sale of real property will be deposited in the New Asset and Improvement Reserve. Surplus operating cash from the previous fiscal year’s operating budget shall be dealt with in accordance with the Unrestricted Operating Cash Policy as approved by the Board through Administrative Resolution 2015-3 on June 6, 2015.

Other funding sources to be considered for Board approval may include Contribution to Reserve through the Annual Assessment, and bank financing.

**Disbursements from Reserves:**

The Board of Directors is responsible for ensuring that all disbursements from the New Asset and Improvement Reserve are in accordance with this policy and for the purposes allowed by this policy. The New Asset and Improvement Reserve 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 currently exist or are included in the Replacement Reserve Study. Disbursements will be only for those items that are not included in the most recent Reserve Study but are included in the annual Capital Spending Plan for that year as approved by the Board of Directors.

**SECTION 3**

**CONTINGENCY RESERVE**

**Purpose:**

To establish a policy on the process for setting aside funds to be used for unforeseen spending requirements not anticipated in the Annual Budget.

**Background:**

LOWA is required to establish an Annual Budget to fund the costs and expenses of the Common Areas and to fund the Repair and Replacement Reserve. The Board recognizes on occasion,
unanticipated large expenses can arise during the Budget Year that are not provided for in the Annual Budget.

Responsibility:

It will be the responsibility of the LOWA Board of Directors to annually set aside in the budget process the amount of Contingency Reserve cash that LOWA should maintain that would “…further and promote the community welfare of property owners in the Subdivision.” (Ref. Restrictive Covenants 12.B) It will be the responsibility of the LOWA Board of Directors to establish the restricted cash Contingency Reserve account to be recorded in the accounting records of LOWA.

Procedure:

The General Manager of LOWA, under the direction of the Board of Directors, is delegated the responsibility to recommend an appropriate cash balance for the Contingency Reserve on a yearly basis, as part of the Annual Budget process.

The amount to be funded for the Contingency Reserve will be proposed by the General Manager to the Board, and the amount to be established and maintained must be approved by the Board, with a goal of beginning each fiscal year with a balance of $100,000.

The Contingency Reserve will be listed separately in the Board Restricted Investments section of the Balance Sheet and any interest earned on this Restricted Cash will be added to the Contingency Reserve balance.

Surplus operating cash from the previous fiscal year’s operating budget shall be dealt with in accordance with the Unrestricted Operating Cash Policy as approved by the Board through Administrative Resolution 2015-3 on June 6, 2015.

Disbursements from Reserves:

The Board of Directors will authorize any disbursement from the Contingency Reserve and is responsible for ensuring that all disbursements from the Contingency Reserve are in accordance with this policy and for the purposes allowed by this policy. The Contingency Reserve is to be used to pay for an unanticipated, large operating cost and/or expense that could be the result of an emergency event, which might occur in the budget year and was not included in the Annual Budget, and which is not covered by any other reserve or insurance.
SECTION 4

NEW CONSTRUCTION AND RENOVATION FEE RESERVE

Purpose:

To establish a policy regarding the handling of cash received from New Construction and Renovation Fees in a budget year.

Background:

LOWA receives fees annually from Contractors and Members who engage in new construction and footprint additions to properties within Lake of the Woods. The amount of the fees received annually varies greatly from year to year based primarily on the health of the economy. For that reason, it is difficult to forecast the amount of NCRF for any given year. Given the uncertainty of these fees, it may not be wise to include them in the revenue for the Administration operating budget beyond a conservative amount.

Responsibility:

It will be the responsibility of the LOWA Board of Directors to establish guidelines for how cash received from NCRF will be handled on an annual basis and the ultimate disposition of those monies to “...further and promote the community welfare of property owners in the Subdivision.” (Ref. Restrictive Covenants 12.B)

It will be the responsibility of the LOWA Board of Directors to establish the restricted cash New Construction and Renovation Fee Reserve account to be recorded in the accounting records of LOWA.

Procedure:

All New Construction and Renovation Fee (formerly Road Fee) Income received during the year in excess of the amount budgeted for New Construction and Renovation Fee Income in the Administration Operating Revenue Account will be transferred from the operating cash account monthly to the Restricted Cash account for the New Construction and Renovation Fee Reserve. All NCRF monies will be restricted to spending programs that improve Common Areas.

The Board may authorize transfer or disbursement of NCRF funds at any time during the year to other Restricted Reserves or Operation Accounts based upon Association needs. The General Manager will present to the Board a mid-fiscal year and end of the year status report and recommendation.

By September 1 each year, the Board will review the amount accumulated in the Reserve at the end of the fiscal year, along with the recommendations of the General Manager and the Finance Committee, and will authorize ultimate distribution of the accumulated funds, based upon the Reserve balance at the prior April 30.
The cash that accumulates in this reserve will be dealt with in accordance with the alternatives as discussed in the Unrestricted Operating Cash Policy as approved by the Board through Administrative Resolution 2015-3 on June 6, 2015.

The NCRF Reserve will be listed separately in the Board Restricted Investments section of the Balance Sheet and any interest earned on this Restricted Cash will be added to the NCRF Reserve balance. In order to assure that information regarding the receipt and disbursement of NCRF Funds will be readily available to and understandable to Members, there will be established and maintained for the NCRF Reserve for each fiscal year a separate NCRF Cash Statement which shows all NCRF amounts received and all amounts disbursed from the NCRF Reserve. Each amount reported on the NCRF Cash Statement as a disbursement from the NCRF Reserve will be accompanied by a footnote which a) identifies the Resolution authorizing said disbursement, b) briefly describes the purpose for which said disbursement was made and c) states the date of adoption of the Resolution. The NCRF Cash Statement will be updated monthly and show information for the current month and for the fiscal year to date. The NCRF Cash Statement will be available to Members to the same extent as other financial statements are available to Members.

By November 1 each year, the Board will establish and maintain a prioritized list of LOWA Common Area candidate projects to include, but not limited to, storm water management, road paving, road repairs, and associated materials and equipment. The Board will review the prioritized list on a quarterly basis, and update as needed.

**Disbursements from Reserves:**

The Board of Directors will authorize any disbursement from the NCRF Reserve and is responsible for ensuring that all disbursements from the NCRF Reserve are in accordance with this policy and for the purposes allowed by this policy and the Unrestricted Operating Cash Policy. All NCRF disbursements shall be approved by Board resolution. In the event that the Board authorizes any disbursement from the NCRF for a purpose other than spending on programs that improve Common Areas as established in this Policy, the Board resolution authorizing said spending will acknowledge that fact and shall state the justification for said spending.

**SECTION 5**

**OTHER POLICY CONSIDERATIONS**

**FURTHER RESOLVED**, Administrative Resolution 2014-2 regarding the Repair and Replacement Reserve Policy adopted on June 7, 2014 and amended February 18, 2015 is hereby repealed.
FURTHER RESOLVED, Administrative Resolution 2014-6 regarding the New Capital Assets Reserve Policy adopted on August 20, 2014 and amended February 18, 2015 to change the name to Infrastructure Improvement Reserve is hereby repealed.

FURTHER RESOLVED, Administrative Resolution 2014-7 regarding the Contingency Reserve Policy adopted on August 20, 2014 is hereby repealed.

FURTHER RESOLVED, the General Manager is directed to change all references from “Road Fees” and “New Capital Asset Reserve” to the new terminology of “New Construction and Renovation Fee” and “New Asset and Improvement Reserve” in the Budget, Fee Schedule and monthly financial reports and to prepare regulation amendments for Board consideration to change all references to Road Maintenance Fees in the Regulations.

FURTHER RESOLVED, Administrative Resolution 2015-1 regarding the Reserve Policy is hereby repealed and replaced.

EFFECTIVE DATE: July 16, 2019

LAKE OF THE WOODS ASSOCIATION, INC.

By: [Signature]
Chilton D. Wilks, President

ATTEST:

I, as Secretary for Lake of the Woods Association, Inc., hereby attest that the foregoing Administrative Resolution No. 2019-11 was adopted by the Board of Directors at a duly-held and noticed Board of Directors meeting held on the 16th day of July, 2019.

By: [Signature]
Walter Diercks, Secretary