

## **RESERVE FUND GUIDELINES**

### Introduction

The Lake Barcroft Association Bylaws (the Bylaws), as amended and approved in the Special Membership Meeting of February 4, 1992, provide for the maintenance of a reserve fund by the association to assure the financial stability of the community. These Reserve Fund Guidelines (the Guidelines) were developed to provide further guidance on the establishment and maintenance of this fund.

### Authority

The Bylaws provide for the payment of yearly fees, including covenant fees, assessments, and annual service fees, by the residents of Lake Barcroft. These fees are to be used to provide community services and assure the long-term financial stability of the community. In this regard, the Bylaws provide in Article IV, Section F, that:

“The Board shall maintain a Reserve Fund to cover unforeseen expenditures and/or revenue deficiencies. The Board shall maintain the Reserve Fund in an amount sufficient to support prudent financial management of LBA’s assets and responsibilities.”

### Discussion

To assure that an adequate reserve will be maintained, the Board’s Finance Committee undertook a review of the community’s finances, insurance, and assets in March 2002. The Committee consulted experts and reviewed reference materials, including publications of the Community Associations Institute.

As a part of its review, the Finance Committee conducted a Reserve Fund Study to determine the amount needed to appropriately fund future anticipated costs for major repair or replacement of the community’s assets. This study consisted of a review of the assets currently owned by the community, the estimated remaining useful life of the assets, and the replacement cost of the assets, and recording this information in an Asset Database. This information was analyzed to determine the amount that must be deposited into a reserve to assure that the requisite funding level exists to replace assets at the end of their expected useful life, and to develop a plan to reach that funding level.

After completing its research, the Committee presented its findings to the LBA Board on August 14, 2002. The Board reviewed the Committee’s findings and recommendations and adopted the following Guidelines.

### Reserve Fund Guidelines

1. The funds in the LBA savings accounts and certificates of deposits as of the date of the adoption of these Guidelines shall be utilized to establish a series of accounts designated as the LBA Reserve Fund.
2. The LBA Reserve Fund shall consist of three reserve accounts, as follows:
  - a) the Operating Reserve Account,
  - b) the Asset Replacement Reserve Account, and
  - c) the Capital Improvements Reserve Account.

### The Operating Reserve Account

3. The Operating Reserve Account shall be used for the following purposes:
  - a) to cover the cost of a major problem or event,
  - b) to fund regular expenses that unexpectedly exceed the budgeted amount,
  - c) to fund the deductible amount in any insurance claims against the community,

- d) to cover the cost of legal expenses, and
- e) to function as an operating reserve until the income for the following year is received.

4. The initial deposit into the Operating Reserve Account shall be \$20,000. If the Board subsequently determines that this amount is not sufficient, this amount can be increased, at the Board's discretion, to an amount sufficient to meet the community's needs.

5. Each year, withdrawals may be made from the Operating Reserve Account, as necessary, to offset the costs designated in Paragraph 3.

6. In the event that the balance in the Operating Reserve Account drops below the amount identified in Paragraph 4, sufficient funds shall be set aside from the annual budget to replenish the Operating Reserve within three years of the date on which the balance fell below the required amount. (Should a major depletion of 50 percent or more of the Operating Reserve Account occur, the Account may be reconstituted within five years.)

#### The Asset Replacement Reserve Account

7. The Asset Replacement Reserve Account shall be used to provide a reserve for major cyclical repair (costing 40 percent or more of the replacement value) or replacement expenses of assets of the community. (Regular maintenance and repair costs shall continue to be paid from the community's regular operating budget.)

8. The initial deposit into the Asset Replacement Reserve Account shall be \$100,000.

9. Each year, \$5,000 shall be deposited into the Asset Replacement Reserve Account to be applied to the future costs of major repairs or replacement of community assets.

10. Each year, withdrawals may be made from the Asset Replacement Reserve Account for major repair or replacement of those assets that have reached the end of their useful life during the year. Records of the cost and date of purchase shall be maintained for incorporation into the Asset Database.

11. As new assets are acquired by the community, as discussed in Paragraph 13, they shall be incorporated into the Asset Database of Reserve Fund Study, discussed on page one of these Guidelines, and an amount equal to the proportionate share of their replacement cost shall be added to the yearly deposit to the reserve account. (For example, if the asset has a twenty year useful life, and its replacement cost is \$10,000, \$500 [1/20th of \$10,000] shall be added to the annual \$5,000 deposit into the reserve account.)

12. The Reserve Fund Study shall be updated by the Finance Committee at least every five years. This periodic review will assure that funds maintained in the Asset Replacement Reserve Account continue to be adequate, allow for periodic adjustments (such as adjustments for inflation or revisions of useful life projections), and ensure that appropriate adjustments have been made to offset expenses associated with any new community assets that have been acquired by the community in the interim.

#### The Capital Improvements Reserve Account

13. The Capital Improvements Reserve Account shall be used for expenditures for additional community assets which the Board, in its best judgment, determines will enhance the value, beauty and/or enjoyment of the community.

14. An initial deposit of \_\_\_ (*the balance remaining at the end of the year after the other reserve accounts are established*) shall be made into the Capital Improvements Reserve

Account for future capital improvements. This deposit shall be supplemented by the net income from Parcel A as it accrues. (Net income refers to Parcel A revenue less expenses incurred in improving the portion of Parcel A being transferred to the community as common property.)

15. Proposals presented to the Board for expenditures from the Capital Improvements Reserve Account shall set forth the cost of obtaining, operating, maintaining, and replacing the item, its expected useful life, and a method of funding these costs, so that the financial impact of the proposal can be evaluated.

#### Funding and Maintenance of Reserve Fund

16. The money in the Reserve Fund shall be maintained, in a manner that reasonably ensures that sufficient liquid funds are available, in interest bearing accounts including savings accounts, certificates of deposit, money market deposit accounts, money market funds, US Treasury bills, US Treasury notes, or Triple A rated government securities, until such time as they are needed to cover expenses of the community.

17. In the best judgment of the Board, the funds shall be divided between and among short and long-term accounts to maximize the amount of interest income received. Money in the various reserve accounts may be co-mingled for investment purposes, so long as detailed records are maintained to allow proper allocation of invested funds among the various reserve accounts.

18. The interest earned from these accounts shall become a part of the Reserve Fund and shall be allocated among the reserve accounts at the discretion of the Board.

19. Any and all operating income remaining at the end of the Community's fiscal year shall be transferred into the Reserve Fund. The Board, in its discretion, shall allocate this income between the Operating and Asset Replacement Reserve Accounts.

20. In the event that excess operating income is not needed to fund the Operating and Asset Replacement Reserve Accounts, the Board may transfer such excess income to the Capital Improvements Reserve Account.