

Working Draft 3/29/10

## **Proposal #1 – Member Contribution to Reserves Statement of Directors to Increase Contribution to Reserves**

Reserves are the funds used to maintain, repair or replace (MR&R) equipment, amenities and infrastructure as they age and wear out. The Board of Directors is charged with protecting and preserving the common property, amenities and infrastructure as part of the members' investment. It is a board's duty to enact the proper reserves rate to meet MR&R contribution requirements. To do so properly, directors must develop funding plans for future repair or replacement of major common area and capital components, such as the swimming pools, decks, roads and related asphalt surfaces, marina and slips, buildings, fencing, signs, and other amenities. Anything with a value of \$1,000 or more is considered a capital component of the community. Community associations throughout the nation use a common practice of setting aside funds for this purpose in a special category commonly called reserve funds, replacement reserves, replacement funds, or simply, reserves.

It is a primary business duty of any community association to maintain and preserve market values of both the residential and common area property. The overall appearance of Lake Monticello translates directly into property value and sense of community – someplace where people want to live and experience a good quality of life.

Additionally, lenders look for signs of financial health of the association when reviewing mortgage applications. Communities with inadequate reserve funds may find themselves at risk for mortgage denials. Reasons for creating and adequately maintaining reserves are: (1) fulfillment of budgetary, fiduciary and professional requirements, including the Commonwealth of Virginia's Property Owners' Association Act (POAA) § 55-514.1, (2) requirements of the secondary mortgage market as dictated by Fannie Mae, FHA, VA and Freddie Mac (3) deterioration/depreciation of common assets from which current owners have benefited, (4) minimizing the need for unforeseen special assessments, (5) adequate reserves support resale values, and (6) accounting standards and Commonwealth of Virginia law require proper attention be paid to the reserve funds, given the depreciable nature of capital components within communities.

Member contribution to reserves represents the member's share of capital costs to replace equipment, facilities and infrastructure. To determine overall reserve requirements, the POAA requires an assessment at least once every five years to determine the amount of reserves required to repair, replace and restore capital components. The Lake Monticello Owners Association contracted with an independent, professional reserve study company (Reserve Advisors, Inc.) who uses various models and depreciation schedules that provide the association with recommended funding levels for reserves. This independent reserve study has been used in recommending the level of member contribution to reserves.

Member contribution to reserves is only a portion of what is needed to meet our community obligations. Funds already exist for a portion of the reserve requirements. These funds include the current balance of reserve funds at the end of the budget year that

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carryover into the next year. Depreciation on equipment also goes to reserves. The Board of Directors can use revenue from investment income as well, but the balance of the reserve funding must come from members.

The Board of Directors has calculated the member share of contributions to reserves by using the five years of reserve requirements from the independent Reserve Study to set the overall reserve requirement. The sum of five years (2011 – 2015) is the starting point for the calculations. Carryover in the reserve accounts was subtracted from the Reserve Study sum. Scheduled depreciation was projected out for the same five years and subtracted from the Reserve Study sum. The Board estimated, for the same five-year period, the expected return available for reserves from investments and subtracted this number from the Reserve Study sum. The contribution each member already makes to reserves is also subtracted. This includes the dedicated roads and lake health contributions in your dues. The remaining balance was then divided by five to average the cost on an annual basis over the next five years and divided again by the number of lots at LMOA. This amount is the proposed member contribution to reserves. Here are the calculations:

Five-Year recommended contribution to reserves	\$9,299,100
Reserve Study Sum 2011 - 2015	
Reserve Advisors 8/24/09 Spreadsheet (replace with current)	
2010 Reserve Estimated Carryover into 2011	
General Reserve	- 398,064
Amenity Fund	- 151,600
Property Transfer Fund	- 198,530
Road Reserve	- 447,621
Lake Reserve	- 47,380
Equipment Depreciation expected	- 1,530,450
Calculated by multiplying 2010 depreciation by 5 years	
Return on investments	- 530,500
Dividends and Interest from ERA	
Capital gains, dividend and interest from Road Reserve	
Capital gains, dividend and interest from Lake Reserve	
Dedicated Roads and Lake Health Contribution by Members in Dues	
Roads \$235,176 in 2010 x 5 years	- 1,175,880
Lake Health \$229,105 in 2010 x 5 years	- 1,145,525
Total	\$ 3,673,630
Annual average for each of 5 years	\$734,726
Dividing by 4,635 lots is the per member contribution	

**Member Contribution to Reserves**

**\$158.52**

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The POAA requires an annual review of the Reserve Study to make additions and subtractions of capital components. The Board of Directors can make adjustments as necessary to maintain reserves, but shall not raise member contributions to reserves until another independent Reserve Study is completed in five years and the Board seeks approval by member vote for an adjustment. If the Board of Directors determines, through this annual review, that reserves available exceed scheduled needs, the Board of directors can reduce member contributions to reserves as part of the annual budget process.

**Ballot Measure**

**Proposal # 1**

**To increase dues dedicated as the member contribution to reserves in the amount of \$158.**

**For \_\_\_\_\_ Against \_\_\_\_\_ Abstain \_\_\_\_\_**

**Note: the actual amount needs to be adjusted based on the final Reserve Advisors contribution to reserve numbers.**