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## Grandview Lot Owners' Association, Inc. Policy

Title: <b>Financial Management of Reserve Accounts</b>	
Document Author / Owner: <b>GLOA President</b>	Doc Number: <b>FINANCIAL POLICY 002</b> Revision: <b>1</b>

### 1.0 Purpose:

- 1.1 The intent of this policy is to document how the Operating and Major Repairs and Replacement (MR&R) Reserves are managed.

### 2.0 Definitions:

- 2.1 **BOD:** As the term is used anywhere in the Grandview Lake policies, procedures and work instructions, the term "BOD" means and refers to the Board of Directors of the Grandview Lot Owners Association, Inc.
- 2.2 **GLOA:** As the term is used throughout these Grandview Lake policies, procedures and work instructions, "Association" means and also refers to the Grandview Lot Owners' Association, Inc., an Indiana not-for-profit corporation. Also referred to as the "corporation". To contact the Grandview Lake office call 812-342-1219 or email [gloa@grandviewlake.org](mailto:gloa@grandviewlake.org). The office is located at 5150 S 650 W Columbus, In 47201-8813. Office hours: Monday through Friday 1:00 PM to 5:00 PM.
- 2.3 **Operating Liquidity:** Best practices suggest that Operating Liquidity, used for normal budgeted operating purposes, liquid and unrestricted as to their use, be an amount equal to at least three (3) months of cash expenses budgeted for the year, excluding gasoline purchases.
- 2.4 **Operating Reserves:** The amount of funds, exclusive of Operating Liquidity, to be held in an account that can be immediately accessed in case of unexpected or emergency expenses not covered by budgeted operating expenses.
- 2.5 **Major Repairs and Replacement (MR&R) Reserves:** The amount of funds to be held in an account, separate from the Operating accounts, to be used for projects identified in the MR&R plan, or that qualify as repairs or replacements of capital assets.
- 2.6 **Total Emergency Reserve:** Consists of the Operating Reserve plus the balance in the MR&R Fund.

### 3.0 Operating Reserves Management

- 3.1 To protect, preserve and enhance the value of lots on Grandview Lake, the BOD must ensure that there are sufficient funds to ensure ongoing operations are not

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disrupted by short-term cash fluctuations as well as reserves to address unexpected operational expenses or emergencies not covered by the operating budget.

- 3.2 In addition to Operating Liquidity, an Operating Reserve of \$50,000 as of 12/31/2019 was embraced by the Board to cover unexpected expenses or extraordinary emergencies, with this amount to be adjusted annually using the US Bureau of Labor Statistics Consumer Price Index to keep pace with inflation.
- 3.3 Excess Operating Reserves are defined as the December 31st cash balance in operating accounts less both the operating liquidity funds defined in Section 2.3 and the operating reserve defined in Section. 3.2. Excess Operating Reserves should be transferred to the MR&R Reserve fund prior to the end of the following year. However, if needed to avoid a shortfall in the targeted operating reserve level described in section 3.2 at the end of the following year, or to address an emergency expenditure, the transfer will be reduced. Once transferred to the MR&R Reserve fund, withdrawing them for operating purposes may jeopardize the favorable tax treatment allowed such capital reserve funds.
- 3.4 As required by tax law, notice of any transfer described in section 3.3 will be made to GLOA members prior to the transfer.

#### **4.0 MR&R Reserves Management**

- 4.1 In 2019, GLOA members voted to adopt the commissioned Capital Reserve Study that evaluated the condition of GLOA capital assets and developed a plan to fund future maintenance and repairs to those assets through the establishment of an MR&R Fund. The elements of this study are reviewed at least annually to ensure that necessary maintenance and repairs are conducted on a timely basis and are being adequately funded through an annual assessment.
- 4.2 At the time of the study, the minimum Total Emergency Reserve level of \$250,000 measured at 12/31/19 was determined, with this amount to be adjusted annually using the US Bureau of Labor Statistics Consumer Price Index to keep pace with inflation.
- 4.3 In the event of emergency expenses, the Operating Reserve and the balance in the MR&R Fund may be used. For tax reasons a plan to replenish the MR&R fund in a timely manner for use of funds not considered major repairs and replacements to capital assts must be established promptly.

#### **5.0 Investment of Reserve Funds**

- 5.1 Both Operating and MR&R Reserves are to be held in accounts or instruments that are FDIC insured or are instruments each of which consists primarily (not less than 85%) of U.S. Treasury obligations.

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## 6.0 Tax Advice regarding revisions

- 5.1 The favorable tax treatment afforded capital reserve funds such as the MR&R Fund requires certain practices such as 3.4 and 4.3 be followed. Aside from revisions to dollar amounts of reserves, substantive changes to this policy should be reviewed by a tax professional with proficiency in community associations like GLOA that do not meet certain tests, and therefore must file IRS form 1120 rather than form 1120H.

## 7.0 Document Revision History and Reason for Change:

<b>Rev:</b>	<b>Sec Changed</b>	<b>Change Made:</b>	<b>Date Approved</b>
0		Initial release	10/21/2021
1		Section 2.3 added, "excluding gasoline purchases"	08/18/2022