

## CAPITAL RESERVE POLICY

### DEERLAKE VILLAGE COMMUNITY ASSOCIATION

#### I. INTRODUCTION:

The Deerlake Village Community Association sets aside Capital Reserve funds for anticipated future costs of designated items in order to prevent significant fluctuations in the annual assessment and assure that sufficient funding is available when needed. Establishment of a reserve fund is required by the covenants.

#### II. POLICY:

The Deerlake Village Community Association's Board of Directors will prepare annually a separate capital budget. The budget will identify individual items to be repaired, replaced or added to the common amenities in future years. The estimated cost for each and the year the expense is anticipated will be included. A portion of the future cost for each item will be funded in the following years' budgets and will be set aside each year in the reserve fund which is maintained as a separate account. Additional items may be added to the capital budget each year. The estimated cost, funding and timing of items from the previous year's capital budget will be reviewed and revised, if necessary, before inclusion in the updated capital budget. Funding for each year's capital contribution will be from the annual DVCA assessments.

- Only items of significant cost that do not recur annually will be included in the capital budget. Individual items are not required to meet the accounting definition of a capital expense.
- Surplus operating funds are transferred to the reserve contingency each year. Shortages in operating budget funds will be considered as an additional funding requirement in the next budget cycle.
- Surplus funds from a capital project are reallocated in the following year's budget by the Finance Committee.
- The capital budget will contain a capital contingency fund equal to 10-20% of the total funded balance. The exact percentage of contingency will be approved by the Board with the recommendation of the Finance Committee as part of the budget process. The contingency fund is a reserve of funds set aside for possible unforeseen, unbudgeted future expenses. The role of the fund is to provide a "safety net" that the Association can use to fill emergency needs. Small items such as pool motors, pool drain covers, kitchen appliances, repairing bridges and tree removal costs not anticipated in the current budget year are charged to the Contingency account. **Projects that are contracted that are not completed in the year contracted, can be charged to the Reserve Contingency account in the following year.**
- Reserves will be maintained for projects planned to be completed within the next 10 years. An exception can be made for high cost projects that are scheduled for more than 10 years that exceed \$20,000. Reserve items should not be funded for more than 20 years maximum.

- If the estimated total cost of a proposed new or revised, where the scope of the project has changed from the original, reserve funded project is \$65,000 or more, inflation adjustments being the exception, the chair of the proposing committee will schedule and brief the DVCA Board on the project prior to submission to the Finance Committee. This requirement includes related projects, such as those to be performed on the same amenity or common area (clubhouse, pool, picnic area, lake, Meadows Park, conservation easement, etc.). After presentation and discussion, the board will determine if the project(s) can be submitted to the Finance Committee, must be modified, requires additional information or should be presented to the community at large at a special meeting and / or described in the Deerlake Diary, before approval to submit to the Finance Committee.

### **III. IMPLEMENTATION:**

Cost estimates should include a reasonable allowance for inflation. The estimated cost of items that have been in the capital budget for more than five years should be re-examined two years prior to the expenditure to verify the validity of the estimate. An adjustment to the funding level will be made if needed.

Committees responsible for the common amenities will be polled each year for identification of additional items for consideration for the capital budget.

Funding for each item will generally be by equal annual installments to bring the reserve up to the estimated cost in the year of anticipated expenditure. The Board may deviate from this approach for valid reasons. For example, the five-year spending plan may indicate a significant reduction in the total annual capital funding requirement, which might justify lower funding of some long-term items in the early years.

A one-page summary of the status of the capital budget will be included with the annual budget presented to the membership for ratification.

This Capital Reserves Policy was adopted and approved by the Board on October 15, 2021.