

**LAKE OF THE PINES ASSOCIATION
POLICIES & PROCEDURES**



This Policy, along with the Procurement Procedures incorporated herein by reference, are not Operating Rules as defined in the Davis-Stirling Common Interest Development Act.

Capital Reserve Fund

The Capital Reserve Fund is defined as the accumulated assessment specifically designated by the Board of Directors and interest earned on those assessments that are to be used for the repair, restoration, replacement, or maintenance of, or litigation involving the repair, restoration, replacement, or maintenance of, major components which the Association is obligated to repair, restore, replace, or maintain and for which the Capital Reserve Fund was established. (As defined in the Davis-Stirling Common Interest Act 5510.)

The Board may authorize the temporary transfer of funds from a Reserve account to the Association's general operating fund to meet short-term cash flow requirements or other expenses, if the Board has provided notice of the intent to consider the transfer in a notice of meeting. The transferred funds shall be restored to the Reserve Fund within one year of the date of the initial transfer.

A. Procedures

The Board will formally segregate each year a portion of the assessments, to be set aside in a separate interest-bearing account and held in reserve, to hold and expend such funds solely and specifically as set forth herein:

1. All members shall be advised annually, by notice in writing, of the actual part of the total assessment which is a contribution to the Capital Reserve Fund of the Association which will not be used to meet anticipated operating expenses for the ensuing year, but will be transferred by the Board to the Capital Reserve Fund to repair, restore, replace or maintain the assets of the Association, to be held and expended in accordance with the intent and purpose of the resolution.
2. The Association's Capital Reserve Study shall cover all real property, furniture, fixtures, equipment and major components owned or maintained by the Association and shall be reviewed annually. -
3. The Board of Directors shall target a 40% funded balance in the Capital Reserve Fund. At no time should the percent funded fall below 30% without explicit approval of the Board of Directors with consideration given to the emergency nature of the associated circumstances and reduction of discretionary components of spending.
4. The Association shall invest funds to attain maximum yield of interest consistent with safety and liquidity to sufficiently meet cash flow needs. Refer to Investment Policy for types of investments permitted.

The Treasurer of Lake of the Pines shall have overview responsibility and meet with the Finance Manager periodically to review investments.

5. Expenditures from the Capital Reserve shall follow the Lake of the Pines Procurement Procedures. The General Manager shall be responsible for timely completion of projects in accordance with Board directives.
6. Expenditures from the Capital Reserve Fund may only be used for repair, restoration, replacement or maintenance of existing components and not for the purchase of new assets or new facilities.
7. Capital Reserve expenditures should be for components which are no longer serviceable as originally designed, meaning that it will cost more to repair or to bring the components to code or safe conditions on an ongoing basis than to replace.
8. The Board of Directors of the Association (or a subcommittee made up of the Treasurer and at least one other Director) shall review on a monthly basis the following:
 - a. A current reconciliation of the Association's Reserve account.
 - b. The current year's actual reserve revenues and expenses compared to the current year's budget.
 - c. The latest account statements prepared by the financial institution where the Association has its Reserve accounts.
 - d. Income and expense statement for the Association's Reserve accounts.

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