

## RULES AND REGULATIONS – FINANCE AND BUDGET

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### RESERVE FUNDS

The policy and procedures that follow are governed in part by RCW 64.38 (The Homeowners' Associations Act) as now enacted and as hereafter altered, amended or reenacted and all definitions and requirements are incorporated herein by this reference. Similarly, the bylaws of Cape George, especially Articles III, VIII and IX contain important budgetary and reserve references and are incorporated herein by reference. Guidance may also be sought in the requirements and pronouncements of the IRS, the AICPA and FIN 02.

Reserve funds are an essential element in the financial viability of Cape George Colony Club and are used to accumulate financial resources for future major repairs and replacements of existing assets. Reserve funds can be used only for items designated in the reserve study, except as provided below. The study is updated at least annually and reviewed as part of the annual budget.

1. The Reserve Study is a schedule of the major repair and replacement of capital assets within Cape George Colony Club.
2. Cape George currently maintains three distinct reserve funds, General, Water and Marina.
3. Reserve funds are provided through a combination of a routine reserve assessment and some, or all, of the year-end operating cash excess (net income) from the respective operating cost centers. At year end the annual reserve assessment is allocated to each fund on a pro-rata basis using the Club's then current individual professional reserve studies. The operational cash excess is allocated by formal action by the Board of Trustees. Interest earned on reserve funds is to be accreted to the respective reserve fund.
4. Expenditures from reserve funds may only be made by an affirmative vote of the Members, except in the case of a bona fide emergency. The total cost of the reserve item or project shall be submitted for Member vote.
5. Reserve funds are intended for the major repair or replacement of existing assets and therefore minor repairs should not be funded with reserve funds.
6. The use of reserve funds for feasibility studies, plans and other up-front expenditures that do not result in major repairs or replacement of existing assets should be discouraged.
7. Reserve funds may not be used to acquire new capital nor shall they be used for funding shortfalls in other fiscal areas or general budgeted operating expenses, except in the case of a bona fide emergency or as permitted by statute.
8. Loans may be made from reserve funds but must be repaid within twenty-four months. Notice of such loans must be hand-delivered or sent by first-class USPS to each owner of record. Internal interest may be assessed at the discretion of the Board.
9. If reserve funds taken as a whole do not contain sufficient funds for the major repair or replacement of an existing asset, Members may be asked to fund an additional special assessment to cover unfunded costs. This however does not mean that each individual reserve study item must be fully funded in order to be replaced.

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10. Upon membership approval by ballot initiative, a **Special Assessment fund** may be established to accumulate funds for future expansion, improvement or creation of new community facilities or infrastructure. Such fund must be based upon professionally-provided estimates of the cost of such improvements and must be presented to the Membership for a vote. The source of funds for such a special reserve should also be specified and may include any or all of the following sources: general assessments, special assessments, fees, sale of Community property, and/or donations.
11. The **Operating Savings account**, or Operating Investment account, is **not** a reserve fund but rather an emergency operational fund. The account was established by a Member vote in 1996 and requires a minimum balance of \$70,000. Funds may be drawn for Board authorized purposes but must be repaid within twenty-four months and full disclosure must be included in the minutes.
12. In the event of a bona fide emergency, the Board may be required to authorize the expenditure of reserve account funds without seeking prior Member approval. A bona fide emergency shall be considered by the Board to be an event that is immediate or emergent in nature and was not reasonably foreseen or anticipated to occur during the current year.

Any revision to this policy must be published in the Newsletter prior to a hearing before the Board of Trustees held to validate and adopt the change.

Adopted by the Board of Trustees, August 10, 2006.

Adopted by the Board of Trustees, July 16, 2009

Approved by the Board of Trustees, February 11, 2016

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Richard Hilfer, President

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Kathleen Habegger, Secretary