



**DC Ranch Association
Board Report 10-1-18 #2**

Subject Matter: Proposed Policy 204 – Capitalization of Assets, Capital Reserves and Repair Reserves

Background: The Policy Committee and Budget and Finance Committee propose the adoption of a policy for the Capitalization of Assets, Capital Reserves and Repair Reserves. The proposed policy accompanies this report.

Its purpose is to establish capitalization and reserve guidelines for DC Ranch Association. Key provisions of this proposed policy are as follows:

- Establishes that the Board serves as a fiduciary to the Corporation.
- Validates the Board's authority to delegate responsibility to the Executive Director.
- Defines a project related expense of \$2,500 or more as a capital expense.
- Personal expenses and real property valued at more than \$5,000 with a life expectancy of more than three years are capital expenses.
- Defines capital reserve fund as funds set aside to pay for future capital expenditures.
- Defines repair reserve fund as funds set aside to pay for future major repair expenditures.
- Requires that a reserve study be conducted at least every three years and sets a minimum funded level of 75%.
- Addresses how capital expenses are booked, income tax procedures, depreciation, budgeting, bank accounts and financial statement reporting.

This proposed policy was conditionally approved by the Board at its August 13, 2018 meeting in accordance with the following policy provision.

Pursuant to Section 102.4c of the policy for the management and development of policies, the following applies should the Board wish to move a policy through the formal approval process. *When the Policy Committee recommends a new policy or a change to a policy and prior to the Board's formal vote, community members shall be provided with a 30-day comment period, where they are afforded an opportunity to provide input and comment on the proposed policy.*

The proposed policy or policies will be posted on the community's website and notice regarding the posting will reflect in the weekly This Week on the Ranch e-mail to DC Ranch residents.

The 30-day member comment period has been satisfied. One member responded, whose comments accompany this report.

Recommendation: Consider the member's comments and formally approve the policy.

A handwritten signature in black ink, appearing to read "Darren Shaw". The signature is written in a cursive, somewhat stylized font.

Darren Shaw, Executive Director



**DC Ranch Association
Policy 204**

Policy on Capitalization of Assets, Capital Reserves and Repair Reserves

Policy 204

Effective Date:

Revised: July 24, 2018

Policy on Capitalization of Assets, Capital Reserves and Repair Reserves

204.1 Purpose: The purpose of this policy is to establish capitalization and reserve guidelines for DC Ranch Association.

204.2 Scope: This policy applies to the capitalization of assets and the funding and uses of reserves for DC Ranch Association.

204.3 Responsibility/Authority: The DC Ranch Association Board of Directors.

204.3a Delegation of Authority: The DC Ranch Association Board of Directors delegates some of its responsibilities to the Executive Director, such as the management of its financial operations, including the capitalization of assets and management of the reserves.

204.4 Introduction: The Association's mission statement is as follows: To serve all DC Ranch Stakeholders through the professional management and protection of the community's fiscal and environmental assets. DC Ranch Association delivers high quality and consistent operations, landscape, maintenance and security services with an emphasis on customer care and open communication that result in sustained property values and exceptional quality of life.

The Board's Directors serve as fiduciaries to the corporation. As a fiduciary, the Association Board is responsible for ensuring that assets are capitalized when necessary and reserves are well funded and managed.

204.5 Definitions: For this policy, the following definitions are used:

204.5a Capitalizable Personal Property: Personal property, such as furnishings, equipment and vehicles, with a cost of \$5,000 or more and a life expectancy of three years or more.

204.5b Capitalizable Real Property: Real property with a cost of \$5,000 or more and a life expectancy of three years or more that the Association can either:

- Dispose, at the discretion of the Board, for cash or claims of cash and retain the proceeds, or
- Use to generate significant cash flows from members on the basis of usage.

204.5c Capital Expenditure: Purchase of property that is a component of common property for more than \$2,500 that has a life expectancy of more than one year.

204.5d Major Repair Expenditure: Payment of more than \$2,500 to repair or extend the life of common property for more than one year.

204.5e Capital Reserve Fund: Funds set aside to pay for future Capital Expenditures.

204.5f Repair Reserve Fund: Funds set aside to pay for future Major Repair Expenditures.

204.5g Reserve Study: A financial planning tool that identifies all common area components for which the Association is responsible for maintaining, repairing and replacing. It establishes a stable and equitable plan to fund anticipated future Capital Expenditures and Major Repair Expenditures.

204.6 Capitalization requirements:

204.6a Financial statement purposes: The Association will capitalize all Capitalizable Personal Property and all Capitalizable Real Property, carrying them at cost on the Association's books.

204.6b Income tax purposes:

204.6b(i) The Association will capitalize Capitalizable Personal Property and Capitalizable Real Property paid for with operating funds which does not qualify as a deductible repair under tax law, as interpreted by Regulations issued by the U.S. Department of the Treasury, especially Regulations under Internal Revenue Code §162 and §263(a).

204.6b(ii) The Association will treat as a return of capital payments of any amount for the acquisition of capital assets as defined under Internal Revenue Codes §163 and §263(a) and the regulations thereunder, payments for the acquisition of common property with a life expectancy of more than one year, paid for with Capital Reserve Fund contributions and assessments which qualify as capital contributions, in accordance

with Internal Revenue Code §118 as clarified in Revenue Rulings 74-653, 75-370 and 75-371.

204.6c Depreciation:

204.6c(i) Financial statement purposes: For financial statement purposes, the Association will depreciate all capitalized assets over their estimated useful life using the straight-line method.

204.6c(ii) Income tax purposes: For tax purposes, the Association will depreciate all capitalized assets using tax law and related authoritative interpretations in effect at the time of acquisition.

204.7 Reserves:

204.7a Reserve Study:

204.7a(i) Timing: A reserve study will be completed at least every three years for all neighborhoods as well as the Master Ranch Association. The reserve study will provide a schedule of needed future Capital Expenditures and Major Repair Expenditures, estimating the useful lives, remaining useful lives and future costs of the related expenditures.

204.7a(ii) Funding Percentage: The Association's minimum funding level for each neighborhood and Master Association is set at 75% fully funded level. If a neighborhood or the Master Association falls below 75% fully funded level for its reserves, the Executive Director will present a correction plan to the Board.

204.7b Reserve Contributions:

204.7b(i) Budgeting: The reserve contribution for each neighborhood and the Master Association will be calculated yearly based upon the reserve study. The contribution amount will be approved by the Board as part of the budget approval process.

204.7b(ii) Accounting: The assessment for each reserve is accounted for separately in the books of the Association.

204.7b(iii) Bank accounts: The Association shall maintain a separate bank account for each reserve which is used for the deposits of each of the reserve contributions. The accounts shall be the Capital Reserve Fund and the Repair Reserve Fund. The funds may be combined into one fund if doing so has no negative consequences.

204.7c Reserve Spending: The balance in each reserve account shall be reduced to cover any expenses, losses or claims for which the account was established. No operating expenses shall be paid with reserve funds.

Approved By: _____ Date _____
Board President or Secretary

Effective Date: _____

From: Grant Mills <gmills413@cox.net>
Sent: Wednesday, August 22, 2018 12:18:08 PM
To: Terri Raimondi
Subject: RE: Postings for review

Terri, I am enclosing some proposed corrections to the policies up for review. I hope this is sufficient for the response. Let me know if you need any further clarification.

Policy 204:

204.7a(i) Timing – at least should be removed so it reads every 3 years for renewal

204.7b(i) Budgeting - calculated yearly based upon the reserve study. This needs to be changed to reflect the 3 year study window. The requirement is determined by the study for 3 years. There should be no annual renewal as the fee is set at the time of the study.

204.7b(iii) Bank account – there needs to be some kind of approval process which is in writing that would allow for the combining instead of the general statement “ if doing so has no negative consequences”. There should be a formalized process.

Policy 301:

301.5 Training and Professional Development: These requirements should be reviewed and approved by the Board.

301.7 Contract Terms and Termination: There should be clarification of how and in what way the service being provided can be terminated ahead of the contract dates.

301.10 Competitive Bidding Requirement: There is no information provided for this section. It needs to be included with our current requirements.

Grant

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