

Falls Creek Ranch Association, Inc.
Capital Reserve Fund Policy
Effective 1/30/2023

Colorado Common Interest Ownership Act (CCIOA) does not require a capital reserve study be conducted, but it does recommend it as good business practice for HOAs. CCIOA does require a policy for how and when a reserve study may be done and how reserve funds shall be invested.

1. FCR Bylaws Section 11.6 Reserves. As part of the adoption of the regular budget the Board of Directors shall include an amount which, in its reasonable business judgment, will establish and maintain an adequate reserve fund for the replacement of improvements to the Common Elements that it is obligated to maintain, based upon the projects age, remaining life and the quantity and replacement cost of major Common Elements improvements. The Board is authorized to deposit reserve funds with national or state banks or with any state chartered or federally chartered savings and loan association doing business in Colorado for fixed periods of time at such rate of interest as may be negotiated but in no event shall any such deposit be in excess of the amount insured by the federal deposit insurance corporation or its successor. The Board is also authorized to invest reserves in mutual funds, stocks or CDs or hire an investment brokerage firm to accomplish same, so long as the investment of said funds are, in the opinion of the Board and their financial advisor, "low-risk" investments.
2. The FCR Board may periodically choose to conduct a reserve study via an external consultant or internally.
3. A component list of assets will be maintained, reviewed and updated yearly prior to the annual budget preparation. This list will be maintained by the Treasurer or other Board member, with input from committee chairs and others. The list will also be used to provide an accurate asset list and depreciation schedule for the balance sheet. FCR will utilize the national standard four-part test to determine which items are suitable for inclusion on the component list.

To appear on the Reserve Component List the asset must:

- a. Be a common element maintenance responsibility,
 - b. Have a limited life of three or more years,
 - c. Have a predictable remaining life, and
 - d. Be above a minimum threshold cost. The minimum threshold is established at \$5,000. Anything less than the threshold level will be covered out of operating funds.
4. It is the board's intent to maintain a minimum reserve balance of \$150,000 and a cap, or maximum, of \$500,000. This objective may be reassessed as a result of the yearly component list update or projected capital needs. Following are the amounts of funds to be transferred on a periodic basis during each year from the Operating Fund Account to the Capital Reserve Fund Account:
 - a) \$40,000 from dues assessments for general capital use.

- b) \$1,500 from dues assessments designated specifically for repairs to the tennis court.
- c) 100% of the monthly water service base fee (\$60,600 as of FY 2022-23).

The Board maintains the authority to adjust the level of contributions periodically based on current and projected capital needs and market conditions.

- 5. Reserves are intended for component asset repair or replacement and emergency capital needs. The reserve funds will not be allowed to cover any overage in operating costs except in extreme circumstances, and then only with 75% approval of the board and with a requirement for replenishment to the reserve fund as soon as possible.
- 6. This policy shall remain in place until such time as any other governance structure relating to reserve funds or capital project governance is approved by the Board or modified by state law at which time our reserve policy will be reassessed.

Approved January 29, 2023
Falls Creek Ranch Board of Directors