

RECREATION CENTERS OF SUN CITY WEST, INC.
POLICY STATEMENT - Fi 04
Reserves Fund Policy

1.0 General:

1.1 Various laws, rules, and/or regulations require that Associations such as the Recreation Centers of Sun City West, Inc. (the "Association") have a written policy covering the funding of future major repairs, and replacement of Capital Assets.

1.1.1 In order to provide for sufficient funding of aging assets, the Association shall maintain records of all Capital Assets along with their estimated useful lives. This information shall be used in determining the annual requirement for reserves.

1.1.2 Establishing a plan for funding Capital Assets using reserves requires a Reserves Study, which sets out the useful life and replacement cost of all of the Association's Capital Assets.

1.2 The Reserves Study shall include the following:

1.2.1 A description of the method used to determine the Reserves requirements;

1.2.2 A description of the funding policy; and

1.2.3 The intended use of the Reserves.

2.0 Purpose:

To establish and maintain a Reserves Fund in accordance with the Association Bylaws, and to fund Capital Expenditures as defined in Fi2, Capital Projects Budgeting.

3.0 Reserves Requirements:

3.1 The Association's Policy Fi5, Insurance Policy, requires that the Governing Board ensure that adequate property, casualty, and liability insurance be maintained on all property owned by the Association.

3.2 This Reserves policy relies on the fact that the Association does maintain such adequate insurance for all insurable risks related to property owned by the Association.

3.3 Reserves requirements shall be determined on an annual basis as part of the Annual Financial Plan and shall include the following:

3.3.1 Repair and Replacement requirements include funds for annual major repairs and/or replacement of the Association's capital assets due to normal usage and age.

3.3.1.1 A Reserves Study shall be maintained by the CFO, with the assistance of a Reserves Specialist, to document the inventory of Capital Assets of the Association and to establish a life expectancy and replacement cost for each asset.

3.3.1.2 The Reserves Study shall include the effects of inflation and a return on investment (ROI) percentage for invested reserves funds to determine the annual requirements.

3.3.2 New Capital requirements include funds for the addition or modification of a major Capital Asset.

4.0 Reserves Funding Policy:

4.1 Reserves are funded from the Association's operating cash flow determined using the Association's annual audited financial statements.

4.1.1 Operating cash flow is defined as "the excess of revenue over/(under) expenses plus depreciation and amortization."

4.1.2 The annual operating cash flow amount, adjusted by Capital related Fees & Expenditures, shall be transferred to Reserves to fund:

4.1.2.1 The Repair Replacement requirement: Association standard for an acceptable Reserves is one set between 40-100%, and

4.1.2.2 New Capital requirements: for the addition or modification of a major Capital Asset.

4.1.3 The Capital related Fees & Expenditures adjustment shall include Asset Preservations Fees (as defined in Policy Fi 17) net of Capital Expenditures including Club Funded Capital and the change in the Capital Encumbrance amount.

4.1.4 Funds shall be transferred as soon as cash flow amount is determined, but no later than the end of December following approval of the transfer by the Governing Board.

4.2 All expenditures from Reserves shall be approved as part of the Annual Financial Plan or upon Governing Board approval of Capital as authorized in the bylaws.