

## **Fogg Cove HOA (dba THE HOMES AT PERRY CABIN) FINANCIAL POLICY**

### **Introduction**

The Finance Committee has developed this policy to document the various funds in the HOA budget and how they operate within the requirements of the community governance documents. There are three categories of funding: operations and maintenance, capital reserve, and community enhancement.

### **Operations and Maintenance Budget**

These funds are appropriated annually to pay for the services required to operate and maintain the community and its functions. This includes, but is not limited to:

- Contracted services (mowing, trimming, weeding and mulching of common area trees and plants, maintenance of marsh);
- Replacement of dead or damaged trees in alignment with the community's long-term landscaping plan;
- Utilities, Insurance and taxes; and
- Office expenses, accounting and legal fees

### **Operations and Maintenance Contingency Line Item:**

The Board may establish and fund a single line item within the operations and maintenance budget to cover unforeseen or unexpected operations and maintenance expenditures in a given year. With proper budgeting the need to do so may not occur or should be minimal. In our situation, these are usually caused by severe weather events. Examples could be:

- Removal of tree damage due to storms;
- Snow removal costs which exceed the amount in the operating fund designated for snow removal; or
- Broken water pipes on dock due to severe freeze or ice damage

### **Budgeting:**

Each year the Treasurer and the Finance Committee will develop a proposed budget for Operations and Maintenance based on past experience and information and realistic projections provided by the Committee Chairs, Property Manager, etc. The budget may also include an amount for the contingency line item. The budget will be voted on and approved by the Board.

### **Funding:**

The Operations and Maintenance budget is funded through the Annual Assessment (i.e. yearly homeowner fees). The amount is set by the Board and can be adjusted annually as part of the budgeting process (See Declaration of Covenants Article IV, #2 &3, and By-Laws Section 2.12 and Article V).

**Unspent Rollover/Carryover:**

Any unspent monies in the Operations and Maintenance budget at the end of a year remain in the HOA bank account and will be identified by the Treasurer.

**Capital Reserve Fund**

This fund is used for replacement of existing community capital components, components exceeding \$1000 in value and/or with a normal economic life of less than 3 years <sup>1</sup>. These are most always itemized in the community reserve study and include such items as the docks, parking lots, tennis courts, mailboxes, and common area lighting. Replacement of any qualifying items added to the community after the date of the most recent reserve study would also be covered through the Capital Reserve Fund.

**Budgeting:**

Each year the Board will review and consider whether capital reserve expenditures should be planned for the coming year based on information in the reserve study and input from the Committee Chairs, Property Manager, etc. A schedule of such planned expenditures shall accompany the Board's Approved Annual Budget, which is sent to the members 30 days prior to the Board's final Budget Approval Meeting.

At least every 5 years the Finance Committee will ensure that the reserve study is updated and reserve funding remains in line with projections for replacement costs and schedules.

**Funding:**

The Capital Reserve Fund is funded through a portion of the Annual Assessment (i.e. yearly homeowner fees). The portion of Annual Assessments which will be directed to the Capital Reserve Fund may be adjusted annually by the Board as part of the budgeting process (See Declaration of Covenants Article IV, #2&3, and By-Laws Section 2.12 and Article V).

If they deem it necessary, the Board may also propose a “special assessment for capital improvement” to provide funds for a specific “construction, reconstruction, repair, replacement” item, with member vote (2/3 of the homeowners in a vote which meets the conditions for a quorum). See Declaration of Covenants Article IV, #4, and By-Laws Section 1.06). Presumably this could occur in a situation where monies in the Capital Reserve Fund are insufficient to cover a required replacement. This should be rare, since the Capital Reserve Fund was established and is being funded to set aside funds adequate to meet projected capital component replacement needs.

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<sup>1</sup> “Items with a replacement cost of less than \$1,000 and/or a normal economic life of less than 3 years are typically excluded from funding from Replacement Reserves.” MillerDodson.com

**Expenditures:**

Like kind replacements of reserve items will be funded in full from the capital reserve fund (example: replace trash shed exactly as is). For replacements that will include some element of enhancement as well (example: replace trash shed with larger shed with electricity, water and lights) the Board will determine how to appropriately allocate the proposed funding from a combination of the capital reserve fund and the community enhancement line item.

Each year the Board will consider the potential needs for planned Capital Reserve expenditures and develop a proposal for any planned spending to be shared with homeowners at least 30 days in advance of the Annual meeting. For example: "The Board proposes to spend not to exceed \$20,000 over the next 12 months for replacement of approximately 20% of the existing dock boards."

In addition, the Board has discretion to use funds from the reserve account for appropriate capital expenditures outside the annual planning process as they deem necessary. Such proposed expenditures will be made at a properly called and advertised Board meeting for which the Agenda identifies the planned expenditure as a matter to be considered.

**Unspent Rollover/Carryover:**

Any monies not spent through a member-approved expenditure proposal remain in the Capital Reserve Fund for future use.

**Community Enhancement Fund**

This fund is used to purchase and install new enhancements in the Common Areas for the benefit of the community. Such items may or may not qualify as being capital components, depending on their value (must be greater than \$1000 and and/or have a projected economic life of longer than three years to be considered capital components<sup>2</sup>). These are items which enhance, enlarge, or contribute to the community's enjoyment or well being. These enhancements could be projects to improve the current uses, recreational facilities, waterfront infrastructure or even landscaping and trees.

Examples could include:

- Kayak launch ramp;
- Benches on docks or in other common areas;
- Additional landscaping in common areas (such as around mailboxes and edges of parking areas); or
- Fire pits

Once a community enhancement item is in place:

- items valued above \$1000 and/or have a projected economic life of longer than three years will be itemized as capital components in future community reserve studies/updates; and
- any costs for operation and maintenance or replacement of enhancement items will come from the appropriate Fund (e.g., Operations and Maintenance, Capital Reserve).

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<sup>2</sup> Ibid.

**Budgeting:**

Each year the Board will review and consider whether Community Enhancement expenditures should be planned for the coming year based on surveys and/or information input from the membership, Committee Chairs, Property Manager, etc. Any such proposed items shall accompany the Board's Approved Annual Budget, which is sent to the members 30 days prior to the Board's final Budget Approval Meeting.

**Funding:**

A portion of the Annual Assessments may be directed to the Fund if approved by the Board (member vote not required) (See Declaration of Covenants Article IV, #2 &3, and By-Laws Section 2.12).

Under the Declaration of Covenants, Article IV #4, the Board could propose a "special assessment for capital improvement" to provide funds for a specific "construction, reconstruction, repair, replacement" item to be done in the same year as the assessment, with member vote (2/3 of the homeowners in a vote which meets the conditions for a quorum). Presumably this could occur in a situation where monies in the Community Enhancement Fund or other funds are insufficient to cover a proposed community improvement.

**Expenditures:**

The Board will develop a proposal to purchase any planned enhancements and share the proposal with homeowners at least 30 days in advance of the Annual meeting. For example: "The Board proposes to spend not to exceed \$5,000 over the next 12 months to purchase and install a community firepit and seating area."

In addition, the Board has discretion to use funds from the community enhancement line item for appropriate expenditures outside the annual planning process as they deem necessary. Such proposed expenditures will be made at a properly called and advertised Board meeting for which the Agenda identifies the planned expenditure as a matter to be considered.

**Maximum/Unspent Rollover/Carryover:**

Any monies not spent through an approved Community Enhancement proposal or other member-approved expenditure will remain for future use. The amount in this fund will not exceed \$10,000 at any given time.