

PAMLICO PLANTATION PROPERTY OWNERS ASSOCIATION, INC.

CAPITAL ASSET REPLACEMENT

RESERVE FUND POLICY

FEBRUARY 1990

COASTAL RIVERS
REALTY

PURPOSE

The Pamlico Plantation Property Owners Association, Inc. (PPPOA) Board of Directors recognizes that the normal physical depreciation of common area assets will occur and that funds must be available for their replacement. Because of this, the Board has established a reserve fund. The primary function of the fund is to assure that common area assets owned by PPPOA members can be replaced with new as the need arises, or to make extra-ordinary repairs. To accomplish the above in a systematic and organized manner, a reserve fund policy has been developed.

It is the purpose of the reserve fund policy to:

- establish a procedure for determining the replacement cost and replacement time for each of the common assets;
- specify how the money needed for the reserve fund will be raised and the procedures to be followed when monies are insufficient to meet both operating and predetermined reserve fund requirements;
- specify how the fund will be used to replace common area assets;
- provide guidelines for investment of the reserve funds in interest bearing instruments;
- prescribe the method to use in selecting a committee to recommend ways and means to manage the fund and to review the reserve fund policy; and
- provide procedures for reporting on fund status and assuring that all policy requirements have been properly followed.

INVESTMENT OF RESERVE FUNDS

Reserve funds shall be invested by the Treasurer and the required second authorized signatory, as recommended by the Reserve Fund Committee in interest bearing investments. Investments considered appropriate for the funds are those which have been approved by the North Carolina Local Government Commission for investment of public funds. (See attachment A, Local Budget Fiscal Control Act, Section 159-30, paragraph (c)). If reserve funds are to be invested in instruments other than those backed by the U. S. Government, the State of North Carolina or the local governments within the state, Board approval by a two-third majority must be obtained.

Reserve funds must be invested in a manner which will accommodate the cash flow requirements of the Association, concerning its common area assets.

MANAGEMENT OF THE RESERVE FUND

Recommendations for the management of the reserve fund will be the responsibility of a three person committee - called the Reserve Fund Committee. The Committee shall consist of the Association Treasurer, a member of the Board of Directors and one member-at-large. The member-at-large to be elected for a term of one year by the members of the association at its annual meeting. Should this position become vacant during the year, the Board will appoint a replacement for the unexpired portion of the term.

Within 6 months after the Committee becomes operational it will prepare and submit to the Board for approval, a specific list of duties it should perform.

RESERVE FUND REPORTING

The Committee shall prepare an annual report on reserve fund status by September 1. The report should contain sufficient information for the Board to determine that the Committee has properly implemented the reserve fund policy. Among other items, the report should contain information on the

- total monies in the reserve fund and how these monies have been invested, including maturity dates of all instruments;
- the remaining useful life for each of the common area assets and how this was determined;
- current replacement value of the assets;
- anticipated expenditures of reserve funds for the subsequent calendar year; and
- recommendations concerning the fund and policy which the Committee believes should be made to the Board.

THE RESERVE FUND
PROCEDURES FOR ACCOUNTING

Monies for the Reserve Fund are part of and come from the property owners' annual assessment. Prior to September 1 of each year the Reserve Fund Committee will determine and recommend to the Board the amount of the property owners' annual assessment which should go to the reserve fund. The portion of the annual assessment designated for the fund is based on the total monies needed for the fund that year. The Committee's determination of the annual amount needed will consider such things as the PI, technological improvements in preservation, and other conditions which may necessitate adjusting the annual amount needed. Also considered in this computation is the impact of interest the fund has earned. Interest earned by reserve fund money becomes part of the fund and is not to be diverted for use elsewhere.

On or before November 1, the Board will either accept the Committee's recommendation or by a two-thirds vote modify it for inclusion in developing the following year's budget.

A situation may arise where the annual assessment is not sufficient to fully fund both the Association's operating budget and its reserve fund commitment. In this situation, the reserve fund has priority and the operating budget must be revised. If the Board believes that circumstances are such that the operating budget cannot be revised, then by a two-thirds vote it may modify the contribution to the reserve fund for that year.

HOW THE RESERVE FUND
WILL BE SPENT

Monies in the reserve fund shall be spent only for the replacement of common area assets, once their useful life has been expended, or to make extra-ordinary repairs. An extra-ordinary repair is a necessary major capital expenditure required to be made before the expiration date of the useful life of the asset. For example, destruction of a property by a peril not insured against.

Common area assets shall be insured to cover all reasonable insurable losses and normal maintenance and repairs shall be provided for in the Association's annual operating budget.

Reserve funds cannot be spent without Board approval. When a common area asset needs to be replaced or an extra-ordinary repair made, the Reserve Fund Committee will submit a written report to the Board explaining the circumstances and its recommendation. The Board by a majority vote can approve or by a two-thirds vote modify the recommendation of the Committee.

Should an unusual, unexpected, condition arise where operating budget monies are insufficient to meet current demands (for example, a significant shortfall in the timely collection of assessments), the Board may approve the short-term use of reserve funds to meet operating budget needs. This approval must be by a two-thirds vote of the directors and the Board must restore the borrowed reserve funds by January 1 of the following year. Interest on the borrowed funds must be paid at simple interest at the published basic rate during the time the reserve funds were borrowed.