

RESOLUTION F-03

FINANCIAL RESERVE ACCOUNTS

1. **Purpose.** This Resolution provides for the establishment of the various reserve accounts necessary to ensure that the Association provides funding to maintain or replace, as necessary, capital assets and to provide for future capital assets that have been approved in the Association's multi-year plans.

2. **Authority.** The By-laws of the Ocean Pines Association, Inc. authorizes the Board of Directors to establish appropriate reserve accounts.

3. **General Definitions.**

a. **Reserves.** Reserves are those portions of the net equity of the Association appropriated for future use for specific purposes. Not included in reserves are non-appropriated equity and equity invested in fixed assets.

b. **Annual Charge.** The annual charge is the amount levied against individual parcels of real property, condominium units, and other real property.

c. **Replacement Expenditures.** (Excluding bulkheads) Replacement expenditures are purchases of replacement capital items including buildings, articles of furniture, vehicles, and equipment having a useful life of over two years and an acquisition cost of at least \$2,000. Also included are groups of lesser unit cost, but where the number of items results in a substantial total investment of at least \$2,000.

d. **Cyclical Maintenance and Replacement Schedule.** Cyclical maintenance and replacement schedule is a basic inventory of Association owned assets, which sets forth expected future expenditures for key repair and/or replacement, including capitalized labor costs, if any. This schedule should be updated annually. Maintenance expenditures from reserves must be major and non-routine in nature.

4. **Reserve Accounts.** The following Reserve Accounts are hereby established and may be used for the purposes stated.

a. **Capital Assets Replacement Reserve.** ("Replacement Reserve") This reserve is for the required maintenance or replacement of Association capital assets.

b. **Roads Maintenance Reserve.** This reserve is for the maintenance of the Association's road system and associated drainage and other road-related maintenance requirements.

c. **Bulkhead and Waterway Reserve.** ("Bulkhead Reserve") This reserve is for the maintenance of the Association's bulkhead and waterway systems.

d. **New Capital Reserve.** This reserve is for assets with functionality that were never previously owned by OPA.

5. Development of Reserve Requirements.

a. **General Manager.** The General Manager shall:

- (1) develop and maintain the Cyclical Maintenance and Replacement Schedule;
- (2) develop projected fiscal year costs for contract services and material plus non-contract services provided by the Association including capitalized labor for replacement of depreciable assets; and
- (3) review all proposals for new recreational amenities, new service facilities, major additions or changes to existing facilities and proposals for the acquisition of property for the development of new facilities.
- (4) For Bulkhead maintenance and replacement, a plan/schedule must be developed separately for OPA owned bulkheads and Privately-Owned bulkheads.

b. **Advisory Committees.** The General Manager may call upon the appropriate advisory committees, as needed, to provide assistance in accomplishing the above responsibilities.

6. Funding the Reserves.

a. **Annual Budget.** The annual budget shall include amounts to fund the estimated requirements of each reserve account. These amounts shall not be less than the annual depreciation cost. Depreciation shall be allocated to each cost center to which it applies.

b. **Government Grants.** The Board of Directors may apply for government grants which may be available to the Association.

c. **Loans.** The Board of Directors may approve loans to be dedicated to a reserve account.

d. **Investment Earnings.** All earnings from the investment of reserve funds shall be credited to the specific reserve account which provided the invested funds. The credited amounts shall be allocated to the reserve accounts from pooled investments earnings based on the respective participation of each reserve fund in the investment pool.

7. Additional Funding for the Bulkhead and Waterway Reserve. This reserve is also funded by:

a. all revenue generated by the portion of annual charges levied on **privately** owned waterfront property or condominium units having waterfront privileges which is used to defray Association bulkhead and waterway costs attributable to these properties; and

b. a percentage or dollar amount of the annual charge for all lots which funds the bulkhead replacement, dredging, and maintenance requirements of OPA-owned property.

8. New Capital Reserve Funding and Controls

a. Funding for this account will come from up to 10% of the yearly Replacement Reserves.

b. The account shall not exceed \$1,000,000 after the yearly contribution as of the new fiscal year. A maximum of \$500,000 may be spent in any one fiscal year.

9. **Investment of Funds.** All reserve funds shall be invested in accordance with Resolution F01, Investment Guidelines.

10. **Withdrawal, Transfer, or Commitment of Funds.** All charges against reserve accounts must have approval of the Board of Directors, either in the annual budget process or other Board action. Reserve funds shall not be expended or transferred for purposes other than those for which the fund was established unless approved by the Board in accordance with the Association's By- Laws.

11. **Effective Date:** October 17, 2020

Approved by the Board of Directors on: October 17, 2020

President: [Signature] Attest: [Signature] Secretary

Review History

General Manager: [Signature] Date: 1/19/21

Legal _____ Date: _____

By-Laws & Resolutions Adv. Committee: [Signature] Date: 1/11/2021