

# **The Peregrine Master Association, Inc.**

## **RECOMMENDED POLICY FOR THE MANAGEMENT AND OPERATION OF RESERVE FUNDS AND RESERVE STUDIES**

### **Resolution 4-10**

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**The Board of Directors of the Peregrine Master Association, Inc., (“Association”) shall adhere to the following policy which supersedes and replaces all other previous Resolutions, since the inception of the Association that relate to Reserve investments, funding and spending of reserve assets. In compliance with the Colorado Common Interest Ownership Act and to be in compliance with Colorado law, as required under Senate Bill 100, Senate Bill 89 and House Bill 09-1359, the Board of Directors herein adopts a uniform and systematic policy regarding the Reserve Fund, Investment policies, Reserve Funding and Reserve Studies.**

#### **I. THE RESERVE FUND:**

- A. **Scope.** The Association has a legal and fiduciary responsibility to manage funds necessary to properly maintain, repair and replace assets in the community that are the responsibility of The Peregrine Master Association (herein named the Association), as defined in Colorado Revised Statutes (“CRS”), the Colorado Common Interest Ownership Act (“CCIOA”) and the Association’s Protective Covenants (“PC’s”).

As a continuation of the Reserve Fund policy, the Association shall develop and manage a non-operating Reserve Fund from which monies will be spent to protect the assets of the Association and preserve and enhance the market value of homes in Peregrine.

- B. **Purpose of the Reserve Fund.** The purpose of the Reserve Fund shall be to adequately fund the future repair, replacement and acquisition of Association-owned equipment, facilities and capital assets for which the Association is responsible. Such community assets typically have limited but reasonably predictable useful lives and should be periodically evaluated on their remaining useful life expectancy.
- C. **Fully Funded Concept.** It shall be the intention of the Association to maintain the Reserve Fund in a fully funded condition on an on-going basis. To this end, the Association shall ensure that there is adequate funding each year so that the project Reserve Fund balance is always positive and never goes into a negative position for the ensuing 10-year period.
- D. **Update of the Reserve Fund.** The financial condition of the Reserve Fund will be evaluated and updated each year to ensure that the Reserve Fund component of the yearly assessment is sufficient to keep the Reserve Fund in a fully funded condition. The Association is not required under the Community’s governing documents to have a reserve study. The Association has determined to establish policies on reserve studies as follows:
- The Board of Directors shall determine whether to have a reserve study prepared and the timing of any such study;
  - The Association may have any reserve study updated or revised periodically;
  - Reserve studies may be performed by an outside consultant or may be prepared internally;
  - It is preferred that Reserve Studies be based on a physical examination of the Community by the person preparing the reserve study.

In addition, the Board of Directors should consider engaging a qualified reserve fund specialist at its direction to perform a comprehensive physical and financial evaluation of all elements of the Association to confirm that:

- The Board has identified all assets that should be included within the Reserve Fund;
- The Board is reserving sufficient funds to protect the identified assets of the Association;
- The anticipated inflation and interest rates on all Reserve investments be taken into account and adjusted periodically, as necessary

E. Reporting on the Condition of the Reserve Fund. The Association shall have prepared, no less frequently than quarterly, a Reserve Fund Expenditure and Income Statement such that all homeowners can have access to the financial condition of the Reserve Fund.

## II. INVESTMENT POLICY:

A. Scope. In order to protect Reserve Fund principal and to create financial return on such principal, to comply with state statutes, to manage reserve funds, the Association shall create policies and procedures for the investment of reserve funds. The Board of Directors shall establish the amount, if any, to be transferred to reserve funds on an annual basis.

B. Purpose of the Investment Policy. The purpose of the Reserve Fund Investment Policy (“Investment Policy”) shall be to define a methodology for the Association to achieve responsible and safe investment of the Reserve Fund’s monies with a consideration for the most appropriate return on the invested monies.

The Investment Policy of the Association should emphasize a long-term outlook by diversifying the maturity dates of fixed-income instruments within the portfolio. All monies shall be invested in financial instruments of the highest caliber, being those guaranteed or backed by the United States government, associated agencies or being rated AAA (Aaa) and further backed by insurance for repayment of principal and interest if not government guaranteed. Other comparably secure instruments may be considered but only as long as they shall satisfy the foregoing conservative investment philosophy. Reserves may be invested in certificates of deposit, money market deposit accounts, money market funds, U.S. treasury and government obligations and other investments recommended by a financial advisor pursuant to the Association’s investment goals. No funds shall be deposited or invested except in authorized investment funds. All investments must be insured by the FDIC, SIPC or similar insurance programs.

C. Investment of Reserves. The Association is bound by Colorado law and the standards of conduct set out in Section 7-128-401 of the Revised Nonprofit Act and shall invest funds held in the Reserve Fund accounts to generate revenue that will accrue to the Reserve Funds accounts balance pursuant to the following goals and objectives:

1. Safety of Principal. Promote and ensure the preservation of the Reserve Fund's principal.
2. Return on Investment. Reserve Funds should be invested to seek the highest level of return that is consistent with preserving the principal and accumulated interest;
3. Liquidity and Accessibility of Reserve Funds. Structure investments to mature without penalty to ensure ready availability of assets for projected or unexpected expenditures.
4. Minimal Costs. Investments costs (redemption fees, commissions, and other transactional costs) should be minimized.
5. Diversification. Mitigate the effects of interest rate volatility of reserve assets by diversifying the investments.

The Board should consider the following circumstances when investing reserve funds:

- General economic conditions;
- Possible effect of inflation or deflation;
- Expected tax consequences;
- Role that each investment plays in the overall investment portfolio;
- Other resources of the Association.

D. Delegation of Authority. The Treasurer shall work directly with the Board and/or a duly appointed Investment Committee, if any and of which the Treasurer may be a member, in recommending appropriate investment strategies. Final determination and execution for all recommended investment strategies shall be made by the Board of Directors. The President, Treasurer, Manager or financial contractor, if authorized by the Board, shall be authorized and empowered to purchase, invest in, acquire, sell or assign any and all types and kinds of investments meeting the goals in the Investment Policy (II) paragraph C; and to enter into agreements, contracts and arrangements with respect to such security transactions and to execute, sign or endorse agreements on behalf of the Association. To withdraw or transfer funds, the express approval of two (2) of the aforementioned persons shall be required.

E. Independent, Professional Investment Assistance. The Board of Directors at its discretion may hire a qualified investment counselor to assist in formulating a specific investment strategy.

F. Appointment of an Investment Committee. The Association may appoint qualified homeowners of the Association to act as an investment committee to assist in formulating a specific investment strategy in conjunction with the Board.

G. General Information:

All accounts, instruments and other documentation of such investments shall be subject to the approval of, and may from time to time be amended by, the Board of Directors as appropriate, and shall be reviewed at least once per year.

The Association shall carry fidelity insurance to protect against theft or dishonesty from anyone with access to the reserve funds. The Association's manager or assigns by the Board shall maintain monthly statements, including detailed accounting of current values, income and all transactions.

H. Standard of Care. The officers and members of the Board of Directors shall make investment decisions in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner the Director or officer reasonably believes to be in the best interests of the Association in accordance with the Colorado Revised Nonprofit Corporation Act.

### **III. RESERVE FUNDING POLICY:**

The following guidelines are intended to formalize the general funding policies that shall be followed by the Association, Management and other financial contractors.

A. Scope. In order to ensure that the Reserve Fund is funded sufficiently to allow for the repair and replacement of identified Reserve Fund elements, and major improvements and acquisitions; a formal process shall be implemented to manage the Reserve Funds. This policy shall identify the process by which funding requests are processed.

- B. Reserve Funding Process. The Association shall, update (or review and approve the update to) the existing schedule of components annually or as required. The Board shall use the Reserve Spending Policy as stated below in this overall Reserve Fund evaluation. Funding for replacement is planned and projected to be from the following sources: (1) cash then on hand, including the operation and the reserve accounts, (2) annual assessments of owners, (3) special assessments of owners, (4) a loan obtained by the Association, and/or (5) any combination of the above.
- C. Reserve Fund Budget. Each year, as part of the Peregrine Master Association's budget process, the Association or its financial contractor shall calculate the future required revenue and spending for the Reserve Fund using several methods (models). The Association shall use the method that will ensure that net cash flow into and out of the reserves projections remain positive for at least 10 years.
- D. Full Reserve Funding Concept. The Association shall require the review of the Reserve Fund balance periodically to ensure that the ending fund balance does not fall below zero at any time during the ensuing 10 year period. This is similar to the method/concept that was utilized by previous Boards and included in the calculations done by Barrera and Company, Inc. in September 2005 and prior years.
- E. Determination of Reserve Funding Requirements. During the annual budget preparation the Board of Directors shall determine the following assumptions to be input into the model software program (e.g. Excel) in order to derive the calculations of future revenue, spending and reserve balances:
1. The planned annual funding increase or decrease to maintain a solvent fund;
  2. The projected interest rate that will be earned on invested funds;
  3. The projected inflation rate for expenditures.
- F. Contingent Funding. If the Reserve Fund is in jeopardy of going into a negative condition, the Association shall immediately develop a contingency plan to bring the balance of the Reserve Fund to a positive condition through the means available to the Board, including: short-term borrowing from the Association's other funds (Working Capital Fund and/or Capital Improvement Fund), short-term loans from outside sources, special assessment of the homeowners or other legally-available sources of short-term funds.

#### IV. SPENDING POLICY:

The following policy is provided to the Association in an effort to help determine whether an expense and or project should be paid for out of the monies in the Reserve Fund.

- A. Scope. In order to ensure that the Reserve Fund is spent in an appropriate manner according to CRS, CCIOA and the Peregrine PC's, the Board of Directors shall adhere to the guidelines outlined in this policy.
- B. Restriction of the Use of Reserve Fund Proceeds. The following criteria shall be met before funding an item/project from the Reserve Fund:
1. The item/project is the responsibility of the Association to maintain, replace or acquire rather than the responsibility of the individual homeowner;
  2. The item is an element in the reserve study or a new asset acquisition that was agreed to by the Association;

3. The expenditure is over \$2,500;
  4. The estimated useful life of the item is less than thirty (30) years at the time of inclusion in the reserve study.
- C. Projects Requiring Bids. All non-emergency projects over \$5,000 shall require a solicitation for at least three (3) separate bids (two bids are sufficient if a third qualified contractor cannot be identified) if multiple contractors are available. (A Request for Proposal may be used);
- D. Review by Staff and Committees. All proposals shall be reviewed by Property Management staff and a recommendation shall be made by staff to the Board. If the Board agrees that the project is intended to be a Reserve Fund project and approves the specifics of the project, such approval shall be sent to the Board of Directors for review of the financial details, including conformance to the Reserve Fund Study and, approved or disapproved, a recommendation shall be made to the Association.
- E. Board Approval. All projects in their entirety must be approved by a majority vote of the Board of Directors.
- F. Board Ratification. If the project required emergency work to be done, then Board of Directors ratification is appropriate.

**V. COMPLIANCE AND ASSESSMENT REVIEW:**

The Association shall annually review financial results for the year then ended (targeted for March and April), to assure compliance with established policies, industry guidelines and ruling legislation. A subsequent report on this review shall be furnished to the Association, setting forth these findings and which may be used in conjunction with the annual audit.

**ADOPTED** by the Board of Directors of The Peregrine Master Association, Inc., effective on 15 May 2010.

**THE PEREGRINE MASTER  
ASSOCIATION, INC.  
Colorado non-profit corporation**

By: Karl E. Laake May 19, 2010  
President

By: Pam Mauer 5/19/10  
Secretary