

**Annual Registration**  
**SALEM RUN HOA INC.**

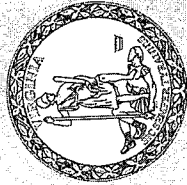
**COMMONWEALTH of VIRGINIA**

Department of Professional and Occupational Regulation  
9960 Mayland Drive, Suite 400, Richmond, VA 23233  
Telephone: (804) 367-8500

NUMBER  
0550003825

EXPIRES ON  
01-31-2018

**COMMON INTEREST COMMUNITY BOARD  
COMMON INTEREST COMMUNITY ASSOCIATION REGISTRATION**



SALEM RUN HOMEOWNERS ASSOCIATION, INC.  
LINDA SOLOMEY  
LANDMARC REAL ESTATE  
PO BOX 7268  
FREDERICKSBURG, VA 22404

*Jan W. DeBoer*  
Director

Status can be verified at: <http://www.dpor.virginia.gov>

(SEE REVERSE SIDE FOR PRIVILEGES AND INSTRUCTIONS)

DPOR-LIC (05/2015)  
(DETACH HERE)



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Department of Professional and Occupational Regulation  
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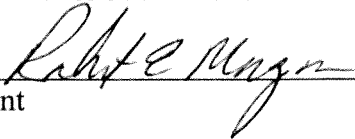
DPOR-PC (05/2015)

**Approved Resolutions**  
**SALEM RUN HOA INC.**

**SALEM RUN HOA, INC.  
Administrative Resolution  
111506**

**BE IT RESOLVED** that, recognizing the importance of accurate and expeditious accounting, " SALEM RUN HOA, INC." elects to apply all or part of the excess assessments to the following year's assessments and that such final amount shall be at the Board's discretion." IRC Section 277.

BE IT FINALLY RESOLVED that this policy resolution supersedes any and all previous actions relative to this subject.

  
\_\_\_\_\_  
President

Date 11/16/08

**Salem Run Homeowners Association, Inc.**

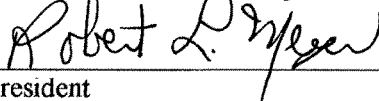
**Policy Resolution 05-20-03**

**Buyer Initial Fee**

**BE IT RESOLVED** that, in order to increase the operating cash availability or fund capital reserve account for the community and recognizing the importance that all new owners share in the advantages gained from past operating and capital expenditures made, and sharing in the benefits of the present balance of the capital reserves fund and should contribute initially and share in the future funding,

**" Salem Run Homeowners Association, Inc.," elects to assess all future buyers as of this date a initial fee of \$150.00 at settlement which shall go to the funding operating expenses, reserve account, or to fund capital expenditures." Effective on the date of Board Approval and as signed.**

BE IT FINALLY RESOLVED that this policy resolution supersedes any and all previous actions relative to this subject.

  
\_\_\_\_\_  
President

Date May 20, 2003

**Articles of Incorporation  
SALEM RUN HOA INC.**

ARTICLES OF INCORPORATION  
FOR  
SALEM RUN HOMEOWNERS ASSOCIATION, INC.

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ARTICLES OF INCORPORATION

FOR

SALEM RUN HOMEOWNERS ASSOCIATION, INC.

ARTICLE 1

NAME

The name of this corporation is **Salem Run Homeowners Association, Inc.**, which is hereby incorporated as a Nonstock corporation pursuant to Chapter 10 of Title 13.1 of the Code of Virginia (1950), as amended ("Act"). The duration of the corporation is perpetual.

ARTICLE 2

INTERPRETIVE PROVISIONS

Section 2.1. Definitions. Terms used herein without definition shall have the meaning specified for such terms in Section 13.1-803 of the Act. Capitalized terms used herein or in the Bylaws shall have the meanings specified for such terms below.

(a) "Approval of Secondary Mortgage Agencies or Mortgagees" means: (i) written approval; (ii) any written waiver of approval rights; (iii) a letter stating no objection; or (iv) presumptive approval if a Secondary Mortgage Agency or Mortgagee does not respond to a notice by certified or registered United States mail, return receipt requested, within thirty days after the date the request for approval is transmitted in accordance with the notice requirements of Article 11 of the Bylaws and Sections 13.2 and 14.4 of the Declaration.

(b) "Articles of Incorporation" means these Articles of Incorporation filed with the Virginia State Corporation Commission, as amended from time to time.

(c) "Assessments" means the sums levied against the Lots to pay Common Expenses as provided in Article 6 of the Declaration. Assessments include Annual Assessments, Additional Assessments, Individual Assessments and Special Assessments (levied pursuant to Section 55-514 of the POA Act).

(d) "Association" means the corporation formed by these Articles and, with respect to the rights and obligations of the Association set forth in the Declaration, its successors and assigns.



(e) "Association Documents" means collectively these Articles of Incorporation, the Declaration, Supplementary Declarations and the Bylaws, all as amended from time to time.

Any exhibit, schedule, certification or amendment to an Association Document is an integral part of that document.

(f) "Board of Directors" or "Board" means the executive and administrative entity established by Article 5 of these Articles of Incorporation as the governing body of the Association.

(g) "Builder" means a Person who purchases a portion of the Submitted Land for the purpose of constructing improvements for resale or rental.

(h) "Bylaws" means the Bylaws of the Association, as amended from time to time.

(i) "Common Area" means, at any given time, all of the Property then owned by the Association and available to the Association for the benefit and enjoyment of the Owners.

(j) "Common Expense" means all expenditures made by or on behalf of the Association, together with all funds determined by the Board of Directors to be reasonably necessary for the creation and maintenance of reserves pursuant to the provisions of the Association Documents. Except when the context clearly requires otherwise, any reference to Common Expenses includes Limited Common Expenses. "Limited Common Expenses" means all expenditures made by or on behalf of the Association and benefiting one or more but less than all of the Owners and assessed against the Lots owned by the Owners benefited pursuant to Subsection 6.2(a) (ii) of the Declaration.

(k) "Covenants Committee" means the committee established by Article 9 of the Declaration to assure that the Property will be maintained in a manner consistent with the purposes and intents of the Declaration.

(l) "Declarant" means the Salem Run Company, LLC, a Virginia Limited Liability Company. Following recordation of an instrument assigning to another Person all or some of the rights reserved to the Declarant under the Association Documents pursuant to Section 5.2 of the Declaration, the term "Declarant" shall mean or include that assignee.

(m) "Declarant Control Period" means the period ending on the earliest of: (i) the later of (a) the tenth anniversary of the date of recordation of the Declaration or (b) the fifth anniversary of the date of recordation of the most recent Supplementary Declaration adding Additional Land (provided, however, that once the Declarant Control Period has expired, the recordation of a subsequent Supplementary Declaration shall not reinstate the Declarant Control Period; and provided, further, that if the Declarant is delayed in the improvement and development of the Property due to a sewer, water or building permit moratorium or other cause

or event beyond the Declarant's control, then the aforesaid period shall be extended for a period of the delay or three years, whichever is less); (ii) the date seventy-five percent of the single family detached and townhome residential dwellings permitted to be located on the Submitted Land or the Additional Land are initially occupied or owned by Owners other than Declarant or a Builder (the foregoing number may be increased or reduced in accordance with any amendments to the Development Plan affecting the number of permitted dwellings or if Exhibits A or B are amended to describe land not originally described in Exhibits A or B, which would result in an increased number of permitted single family detached and townhome dwellings); (iii) the date specified by the Declarant in a written notice to the Association that the Declarant Control Period is to terminate on that date; or (iv) the end of the Development Period.

(n) "Declaration" means the Declaration for **Salem Run** made by the Declarant and recorded among the Land Records. The term Declaration shall include all amendments thereto and, except when the context clearly requires otherwise, all Supplementary Declarations. "Supplementary Declaration" means any declaration: (i) submitting land to the terms of the Declaration and subjecting such land to the jurisdiction of the Association whether or not such Supplementary Declaration contains additional provisions reflecting the unique characteristics of the land being submitted; or (ii) submitting a portion of the Property to such supplementary covenants in accordance with the provisions of Article 4 of the Declaration. A Supplementary Declaration may be part of a deed of subdivision.

(o) "Development Period" means the period of time that the Declarant or Builders are engaged in development or sales or activities relating thereto, anywhere on the Property and the Declarant is entitled to exercise certain special declarant rights under the Association Documents. When all the Submitted Land has been conveyed to Owners other than the Declarant or a Builder, and all bonds held by a governmental agency with respect to the Property have been released, then the Development Period shall end.

(p) "Land Records" means the land records of Spotsylvania County, Virginia, the jurisdiction in which the Property is located.

(q) "Lot" means a portion of the Property which is a separate subdivided lot of record or any other parcel of Submitted Land held in separate ownership (but not including the land designated as Common Area and owned by the Association or land designated as Common Area and owned by the Association or dedicated for public street purposes) together with any improvements now or hereafter appurtenant thereto.

(r) "Majority Vote" means a simple majority (more than fifty percent) of the votes entitled to be cast by members present in person or by proxy at a duly held meeting of the members at which quorum is present. Any vote of a specified percentage of members means that percentage with respect to the total number of votes actually cast by members present in person or by proxy at a duly held meeting at which a quorum is present. Any vote by a specified percentage of the Board of Directors (or committee) means that percentage with respect to votes

entitled to be cast by directors (or committee members) present at a duly held meeting of the Board of Directors (or committee) at which a quorum is present. Any vote of or approval by a specified percentage of the mortgagees means a vote or approval (whether actual or presumed) by the Mortgagees calculated based on one vote for each Lot on which a Mortgage is held by a Mortgagee.

(s) "Mortgagee" means an institutional lender (one or more commercial or savings banks, savings and loan associations, trust companies, credit unions, industrial loan associations, insurance companies, pension fund or business trusts, including but not limited to real estate investment trusts, any other lender regularly engaged in financing the purchase, construction or improvement of real estate, or any assignee of loans made by such lender, or any combination of any of the foregoing entities) holding a first mortgage or first deed of trust ("Mortgagee") encumbering a Lot which has notified the Board of Directors of its status in writing pursuant to Section 13.2 of the Declaration and has requested all rights under the Association Documents. Only for purposes of the notice and inspection rights in Articles 13, 14 and 15 of the Declaration, term "Mortgagee" shall also include the Federal Housing Administrative (FHA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), the Department of Veterans Affairs (VA), the Government National Mortgage Association (GNMA) and any other public or private secondary mortgage market entity participating in purchasing, guaranteeing or insuring Mortgages which has notified the Board of Directors of such participation in writing ("Secondary Mortgage Agencies").

(t) "Officer" means any Person holding office pursuant to Article 6 of the Bylaws.

(u) "Owner" means one or more Persons who own a Lot in fee simple, but does not mean a Person having an interest in a Lot solely by virtue of a contract or as security for an obligation.

(v) "Person" means a natural person, corporation, partnership, association, trust or other entity capable of holding title or any combination thereof.

(w) "Property" means, at any given time, the Submitted Land together with all improvements and appurtenances thereto now or hereafter existing.

(x) "Rules and Regulations" means the rules and regulations governing the use, occupancy, operation and physical appearance of the Property adopted from time to time by the Board of Directors.

(y) "Submitted Land" means the land designated as such in Exhibit A to the Declaration and all land which is from time to time submitted to the Declaration.

(z) "Upkeep" means care, inspection, maintenance, operations, repair, repainting, remodeling, restoration, improvement, renovation, alteration, replacement and reconstruction.

Section 2.2. Construction of Association Documents.

(a) Captions. The captions are inserted only for reference, and in no way define, limit or describe the scope of any provision.

(b) Pronouns. The use of the masculine gender shall be deemed to include the feminine and neuter genders, and the use of the singular shall be deemed to include the plural and vice versa, whenever the context so requires.

(c) Severability. Each provision of an Association Document is severable from every other provision, and the invalidity of any one or more provisions shall not change the meaning of or otherwise affect any other provision. To the extent that any provision of the Association Documents is found to be overly broad or unenforceable and a narrower or partially enforceable construction may be given to such provision, then the narrower or partially enforceable construction shall be applied and, to the extent practicable, the provision shall be enforced.

(d) Interpretation. If there is any conflict among the Association Documents, the Declaration, and thereafter the applicable Supplementary Declaration, the Declaration shall control, except as to matters of compliance with the Act, in which case the Articles of Incorporation shall control. Particular provisions shall control general provisions, except that a construction consistent with the Act shall in all cases control over any construction inconsistent therewith. The provisions of the Bylaws shall control over any conflicting provision of any rule, regulation or other resolution adopted pursuant to any of the Association Documents. The Association Documents shall be construed together and shall be deemed to incorporate one another in full. Any requirements as to the content of one shall be deemed satisfied if the deficiency can be cured by reference to any of the others.

ARTICLE 3

PURPOSES AND LIMITATIONS

Section 3.1. Purposes and Limitations. The Association does not contemplate pecuniary gain or profit to its members. No part of any net earnings shall be paid to any director, officer or member, and as such they will have no interest in or any title to any of the property or assets of the Association except in accordance with the provision herein relating to dissolution. Nothing shall prohibit the Association from reimbursing its directors and officers for services performed or for all reasonable expenses incurred in performing services for the Association. The purposes for which the Association is organized are to:

(a) provide for the Upkeep of the Common Area and, to the extent provided in the Association Documents, of the Lots;

(b) establish and administer the architectural, landscaping and maintenance standards governing the Property;

(c) promote and provide for the health, safety, convenience, comfort and the general welfare of the Owners of the Lots and the occupants of the Property;

(d) impose, collect and disburse dues and Assessments in accordance with the provisions of the Declaration;

(e) exercise all other powers and perform all duties and obligations of the Association as set forth in the Association Documents with respect to all or any portion of the Property; and

(f) exercise the powers now or hereafter conferred by law on Virginia corporations as may be necessary or desirable to accomplish the purposes set forth above.

#### ARTICLE 4

##### MEMBERSHIP AND VOTING

Section 4.1. Membership. Members of the Association shall at all times be, and be limited to, the Declarant (during the Development period) and the Persons who constitute Owners of the Lots. If more than one Person owns a Lot, then all of the persons who own such Lot shall collectively constitute the Owner and be one member of the Association. Each such Person is entitled to attend all meetings of the Association. Membership in the Association is mandatory and automatic.

##### Section 4.2. Classes of Members; Voting Rights.

(a) Classes; Voting Rights. The Association shall have the following classes of members:

The Class A members shall be the Owners of Lots other than the Declarant or Class C member. A Class A member shall have one vote for each Lot owned.

The Class B member shall be the Declarant. The Class B members shall have votes equal to the total number of total lots multiplied by three, less three votes for each vote held by a Class A Member.

The Class C member shall be the Owners of the lots designated for multi-family units. The Class C member shall have one vote for each ten (10) units owned.

**Salem Run Homeowners Association  
ANNUAL MEETING VOTING**

<b>Meadows</b>	<b>180 Units 18 Votes</b>
<b>Greens of Salem Run</b>	<b>200 Units 20 votes</b>
<b>Salem Run Apartments</b>	<b>258 Units 26 Votes</b>
<b>Villas Single Family</b>	<b>58 Units 58 Votes</b>

After the Declarant Control Board expires, the Declarant as the Class B member shall be entitled to one vote for each Lot owned by the Declarant. After the Development Period ends, the Class B membership shall cease to exist and all Class B membership shall become Class A memberships.

(b) Additional Provisions Governing Voting. Additional provisions governing voting rights and procedures shall be as set forth in Article 3 of the Bylaws.

Section 4.4. Cumulative Voting There shall be no cumulative voting.

## ARTICLE 5

### BOARD OF DIRECTORS

Section 5.1 Initial Directors. The three initial directors of the Association are Richard M. Tremblay, Edward O. Minniear, Jr., and Paul S. Elkin whose business address is 1201 Central Park Boulevard, Fredericksburg, Virginia 22401. The initial directors shall serve until their successors are elected in accordance with Section 5.2 hereof. The Declarant shall be entitled to remove and replace the initial directors at will.

Section 5.2. Election of Directors and Term of Office.

(a) Declarant-Controlled Board of Directors. The initial Board of Directors consists of three Persons; thereafter, the number of Directors may be increased to not more than five directors pursuant to this section and Section 4.2 of the Bylaws. Except as provided in this section, all directors shall be elected by the Class B member who shall elect, remove and replace such directors at will, and designate the terms thereof, until the meeting described in Subsection 5.2(b) at which all members with voting rights are entitled to elect a majority of the directors. The term of office of at least one but less than three of the directors elected by the Class B member at the first election of the directors shall expire at the third annual meeting following their election, the term of office of at least one but less than three of the directors shall expire at the second annual meeting and the term of office of at least one but less than three of the directors shall expire at the first annual meeting following their election. The actual number of directors whose term of office expires at each of the three annual meetings described in the preceding sentence shall be one-third (or a number as near to one-third as possible) of the total number of directors. Thereafter, each director shall serve for a three-year term. If the aggregate number of directors is changed, terms shall be established so that one-third (or a number as near to one-third as possible) of the total number of directors is elected each year.

(b) Owner-Controlled Board of Directors. At the first annual meeting of the Association following the end of the Declarant Control Period or at any special meeting called by the Class B member to transfer control of the Board of Directors, the number of directors may be increased to five and the number of directors elected by the Class B member shall resign, if

necessary, so that a majority of directors shall have been elected by the Class A members. At such meeting and at every annual meeting thereafter during the Development Period, three members of the Board of Directors whose terms have expired or who have resigned shall be replaced by a vote of the Class A members and two members shall be elected by the Class B member. After the Development Period expires, all directors shall be elected by the Class A members.

Persons elected shall serve for the remainder of the terms of the director replaced, or if no resignation was required, for the terms of office necessary so that the term of office of one-third (or a number as near to one-third as possible) of the directors shall expire at the first three annual meetings after their election. The directors receiving the greatest vote shall be elected for the longest available terms. All successor directors shall be elected to fill a vacancy in which case such director shall serve as provided in Section 5.6 hereof. Except for death, resignation or removal, the directors shall hold office until their respective successors have been elected. If an election is not held when required, the directors holding over shall have the authority and power to manage the business of the Association until their successors are duly elected.

Section 5.3. Qualifications; Election Procedures.

(a) Qualifications. No person shall be eligible for election as a member of the Board of Directors unless such person is an Owner, an Owner's spouse, the Declarant (or a designee of the Declarant) or a Mortgagee in possession (or a designee of a Mortgagee in possession). No Owner or representative of such Owner shall be elected as a director or continue to serve as a director if such Owner is more than thirty days delinquent in meeting financial obligations to the Association or found by the Board of Directors after a hearing to be in violation of the Association Documents or Rules and Regulations.

(b) Nominations. Persons qualified to be directors may be nominated for election by a nominating petition submitted to the Secretary at least twenty-five days before the meeting at which the election is to be held. The nominating petition must be signed by three other Owners and either signed by the nominee or accompanied by a document signed by the nominee indicating the willingness to serve as a director; provided, however, that additional nominations may be made from the floor at the meeting at which the election is held for each vacancy the Board of Directors for which no more than one Person has been nominated by petition. The nominee must either be present and consent to the nomination or have indicated in writing the willingness to serve. Notwithstanding any other provision of this section, during the Declarant Control Board, the Board of Directors may waive or modify any requirements under this section.

(c) Elections Committee. At least forty-five days prior to each meeting of the Association at which the directors are elected by members other than the Class B member, the Board of Directors may appoint an Elections Committee consisting of a member of the Board whose term is not then expiring and at least two other persons who are not members of the Board. The Elections Committee may develop election procedures and administer such



procedures as are approved by the Board providing for election of directors by ballot of the members at annual meetings and, where appropriate, special meetings.

(d) Declarant Control Period. The Declarant may waive the foregoing procedures during the period of time that the Declarant has the right to elect all the directors.

Section 5.4. Action by Board of Directors. At all meetings of the Board of Directors a majority of the total number of directors shall constitute a quorum for the transaction of business. A Majority Vote of the directors while a quorum is present shall constitute a decision of the Board of Directors, unless otherwise provided in the Act, these Articles of Incorporation or the Bylaws. Except pursuant to Section 2.3 of the Declaration, the Board of Directors may not mortgage, pledge or dedicate to the repayment of indebtedness or otherwise transfer, convey or encumber any or all of the Association property without the approval of the members and Mortgagees as required by 14.4 of the Declaration.

Section 5.5. Removal or Resignation of Directors. Except with respect to initial directors and directors elected by the Class B member and replacements thereof, at any regular or special meeting of the Association duly called, any one or more of the directors may be removed with or without cause by members entitled to cast a majority of the total number of votes and a successor may then and there be elected to fill the vacancy thus created. Any director whose removal has been proposed by the members shall be given at least ten days notice of the time, place and purpose of the meeting and shall be given an opportunity to be heard at the meeting. The notice given to members of such meeting shall state one of the purposes of the meeting is to remove such director. The Class B member may remove and replace an initial director or any director elected by the Class B Owner or a replacement thereof at will, pursuant to Section 5.2 hereof. A director may resign at any time by giving notice to the Board of Directors, the President or the Secretary. Unless otherwise specified, such resignation shall take effect upon the receipt thereof and the acceptance of such resignation shall not be necessary to make it effective. Except for initial directors and directors elected by the Class B member or replacements thereof, a director shall be deemed to have resigned upon disposition by the Owner of the Lot which made such person eligible to be director, or if such director is not in attendance at three consecutive regular meetings of the Board without approval for such absence, and the minutes reflect the director's resignation pursuant to this section. No director need be a resident of the Property, but beginning at such time as the directors are elected by all members (rather than elected solely by the Class B member) and at all times thereafter, if any director was a resident when elected, except for a director elected by the Class B Member, such director shall be deemed to have resigned when such director ceases to be such a resident.

Section 5.6. Vacancies. Vacancies on the Board of Directors caused by any reason other than: (a) the removal of a director by the members or by the Class B member or (b) resignation of a director elected by the Class B member, shall be filled by a Majority Vote of the remaining directors at the meeting of the Board held for such purpose promptly after the occurrence of such vacancy or, if the directors remaining in office do not constitute a quorum, an

affirmative vote of a majority of the directors remaining in office. Each person so elected shall be a director until a successor shall be elected at the next annual meeting of the Association. Vacancies caused by removal of a director by the members shall be filled by a vote of the members, pursuant to Section 4.2 and 5.5 hereof, and the successor director shall serve the remainder of the term of the director being replaced. The Class B member shall replace any initial director or director elected solely by the Class B member.

#### ARTICLE 6

##### INITIAL REGISTERED OFFICE AND AGENT

The initial registered office of agent for the Association is located in the City of Fredericksburg at 1210 Central Park Boulevard, Fredericksburg, Virginia, 22401. The initial registered agent of the Association is H. Glenn Goodpasture, whose business address is P.O. Box 966, Fredericksburg, Virginia, 22404, and who meets the requirements of Section 13.1-833 of the Act by reason of the fact that he is a resident of Virginia and a member of the Virginia State Bar.

#### ARTICLE 7

##### AMENDMENT

These Articles may be amended if the amendment is adopted by members entitled to cast at least sixty-seven percent of the total number of votes. No amendment to these Articles may diminish or impair the rights of the Declarant without the prior written consent of the Declarant. The Association shall take no action to amend the Articles of Incorporation in violation of Section 4.4 of the Declaration.

#### ARTICLE 8

##### DISSOLUTION

The Association may be dissolved if the resolution to dissolve is adopted by members entitled to cast at least sixty-seven percent of the total number of votes of each class of the members. Further, the Association may not be dissolved without the prior written approval of the Declarant during the Development Period. Upon termination of the Declaration and the dissolution of the Association other than incident to a merger or consolidation, the assets of the Association shall be granted, conveyed and assigned to another nonprofit corporation, association, trust or other organization or governmental agency devoted to purposes similar to those for which the Association was created or offered for dedication to Spotsylvania County, Virginia; provided, however, that if a site plan is approved for the Property, or any portion thereof containing Common Area, which changes the design, layout or use of the Property in such a

manner that the Common Area is no longer necessary to the new design, layout or use, and the County refuses to accept a dedication then such Common Area and their associated assets of the Association may be distributed as agreed upon by Owners entitled to cast at least sixty-seven percent of the total number of votes of the members. The Association shall take no action to dissolve the Association or transfer Common Area except in accordance with Section 14.4 of the Declaration. This Article may not be amended without the prior written approval of fifty-percent of the Mortgagees.

IN WITNESS WHEREOF, the incorporator of the Association has signed these Articles of Incorporation on ~~October~~ \_\_\_\_\_, 1995.

\_\_\_\_\_  
*Incorporator*  
*H. Glenn Goodpasture*

**Budget**  
**SALEM RUN HOA INC.**

# 2017 Budget - Salem Run HOA

APPROVED

## GENERAL

	2016 Annual Budget	2017 Annual Budget
<b>Quarterly Assessment</b>	<b>\$13.93</b>	<b>\$13.93</b>
<b>Annual Assessment</b>	<b>\$55.72</b>	<b>\$55.72</b>
<b>Income</b>		
<b>Assessment Income</b>		
General Assessments	3,232.00	3,232.00
Salem Run T/H	11,144.00	11,144.00
Meadows	5,015.00	5,015.00
Garden	7,188.00	7,188.00
<b>Total Assessment Income</b>	<b>26,579.00</b>	<b>26,579.00</b>
<b>Other Income</b>		
Operating Interest Income	60.00	30.00
Reserve Interest Income	40.00	40.00
<b>Total Other Income</b>	<b>100.00</b>	<b>70.00</b>
<b>Total Income</b>	<b>26,679.00</b>	<b>26,649.00</b>
<b>Expense</b>		
<b>Administrative Expenses</b>		
Checks & Coupons	175.00	150.00
Postage	225.00	225.00
Printing & Copying	250.00	250.00
Office Supplies	40.00	40.00
A/P Processing	0.00	200.00
Record Storage	468.00	468.00
Misc Admin Expenses	230.00	120.00
<b>Total Administrative Expenses</b>	<b>1,388.00</b>	<b>1,453.00</b>
<b>Contracted Services</b>		
Grounds Maint Contract	1,800.00	1,800.00
Grounds Improve/Rplc	0.00	400.00
<b>Total Contracted Services</b>	<b>1,800.00</b>	<b>2,200.00</b>
<b>Facility Expenses/Utilities</b>		
Electric-StLghts/Entrance	4,900.00	5,000.00
<b>Total Facility Expenses/Utilities</b>	<b>4,900.00</b>	<b>5,000.00</b>
<b>Facility Maintenance/Repairs</b>		
Sign Maint/Rpr	0.00	334.00
Stormwater Pond Maint	0.00	1,000.00
<b>Total Facility Maintenance/Repair</b>	<b>0.00</b>	<b>1,334.00</b>
<b>Insurance, Taxes &amp; Fees</b>		
Insurance Coverage	3,231.00	3,000.00
SCC Fee	25.00	25.00
CICB Certification	95.00	95.00
<b>Total Insurance, Taxes &amp; Fees</b>	<b>3,351.00</b>	<b>3,120.00</b>
<b>Professional Services</b>		
Management Contract	8,016.00	8,016.00
Legal-Collections	200.00	200.00
Audit/Tax Services	1,485.00	1,505.00
<b>Total Professional Services</b>	<b>9,701.00</b>	<b>9,721.00</b>
<b>Reserves</b>		
General Reserves	5,499.00	3,781.00
Reserve Interest Expense	40.00	40.00
<b>Total Reserves</b>	<b>5,539.00</b>	<b>3,821.00</b>
<b>Total Expense</b>	<b>26,679.00</b>	<b>26,649.00</b>
<b>Excess Revenue / Expense</b>	<b>0.00</b>	<b>0.00</b>

## SINGLES

	2016 Annual Budget	2017 Annual Budget
<b>Quarterly Assessment</b>	<b>\$157.50</b>	<b>\$185.00</b>
<b>Annual Assessment</b>	<b>\$630.00</b>	<b>\$740.00</b>
<b>Income</b>		
<b>Assessment Income</b>		
Single Assessments	36,540.00	42,920.00
<b>Total Assessment Income</b>	<b>36,540.00</b>	<b>42,920.00</b>
<b>Other Income</b>		
Prior Years Surplus	13,362.00	7,176.00
<b>Total Other Income</b>	<b>13,362.00</b>	<b>7,176.00</b>
<b>Total Income</b>	<b>49,902.00</b>	<b>50,096.00</b>
<b>Expense</b>		
<b>Activities</b>		
Social Activities	300.00	150.00
<b>Total Activities</b>	<b>300.00</b>	<b>150.00</b>
<b>Administrative Expenses</b>		
Bad Debt	250.00	250.00
<b>Total Administrative Expenses</b>	<b>250.00</b>	<b>250.00</b>
<b>Contracted Services</b>		
Grounds Maint Contract	40,500.00	39,300.00
Grounds Improve/Rplc	500.00	1,000.00
Trash Service	8,352.00	9,396.00
<b>Total Contracted Services</b>	<b>49,352.00</b>	<b>49,696.00</b>
<b>Total Expense</b>	<b>49,902.00</b>	<b>50,096.00</b>
<b>Excess Revenue / Expense</b>	<b>0.00</b>	<b>0.00</b>

**Bylaws**  
**SALEM RUN HOA INC.**

1-7/2  
3-10-1997

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BYLAWS

FOR

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SALEM RUN HOMEOWNERS ASSOCIATION, INC.

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BYLAWS  
FOR  
SALEM RUN HOMEOWNERS ASSOCIATION, INC.

ARTICLE 1

INTERPRETIVE PROVISIONS

Terms used herein without definition shall have the meanings specified for such terms in Section 13.1-803 of the Virginia Nonstock Corporation Act ("Act"). Definitions, terms and other interpretive provisions set forth in Article 2 of the Articles of Incorporation for Salem Run Homeowners Association, Inc. ("Articles of Incorporation") are equally applicable to these Bylaws.

ARTICLE 2

MEETINGS OF MEMBERS

Section 2.1. Annual Meetings. The first annual meeting of the Association shall be held, not later than the first anniversary of the incorporation of the Association, at such time and place as may be fixed by a resolution of the Board of Directors. Subsequent annual meetings of the Association shall be held on weekdays (other than legal holidays recognized as such in Virginia) at least thirty days before the beginning of each fiscal year at such time as may be fixed from time to time by resolutions of the Board of Directors.

Section 2.2. Special Meetings. The Association shall hold a special meeting: (a) upon the call of the President; (b) if so directed by resolution of the Board of Directors; (c) upon a petition presented to the Secretary and signed by members entitled to cast at least twenty percent of the total number of votes located within the Property (excluding the Declarant's vote); or (d) upon request of the Declarant during the Development Period. The signatures on a petition requesting a special meeting shall be valid for a period of one hundred-eighty days after the date of the first such signature. Such resolution, petition or request must: (a) either specify a place, date and time on which the meeting is to be held which will permit the Secretary to comply with Section 2.3. hereof, or else specify that the Secretary shall designate the place, date and time of the meeting; (b) specify the purposes for which the meeting is to be held; and (c) be delivered to the Secretary. No business other than that stated in such resolution, request or petition shall be transacted at such special meetings.

Section 2.3. Notice of Meetings.

(a) Written notice stating the place, date and time of each annual meeting and, in case of a special meeting, the purposes for which the meeting is called, shall be given by the Secretary to each member entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting. The giving of notice in the manner provided in this section and Article 11 hereof shall be considered service of notice.

(b) Notwithstanding the provisions of Subsection (a), notice of a meeting to act on an amendment to the Articles of Incorporation, a plan of merger or consolidation or dissolution shall be given in the manner provided above not less than fifteen nor more than sixty days before the date of the meeting. Any such notice shall be accompanied by a copy of the proposed amendment, plan of merger or consolidation or dissolution and shall not be effective unless notice of such matter was provided in accordance with this subsection.

Section 2.4. Waiver of Notice of Meetings.

(a) Whenever any notice is required to be given of any meeting of the Association, a waiver thereof in writing, signed by a member entitled to such notice, whether given before or after the meeting, shall be equivalent to the giving of such notice to that member and such waiver shall be delivered to the Secretary for inclusion in the minutes or filing with the Association records.

(b) A member who attends a meeting shall be conclusively presumed to have had timely and proper notice of the meeting, or to have duly waived notice thereof, unless such member attends for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called, or convened, and so notifies the person conducting the meeting at or prior to the commencement of the meeting, or at or prior to consideration of the matter subject to objection, in the case of a special meeting.

Section 2.5. Quorum. A quorum shall be deemed to be present throughout any meeting of the Association if members entitled to cast at least ten percent of the total number of votes are present, in person or by proxy, at the beginning of such meeting, including all the votes of the Class B members for so long as the Class B membership exists. Once a member is present at a meeting, such member is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new Record Date is or shall be set for that adjourned meeting. When voting on any matter requiring a vote by a specified percentage of each class of members, or of the specific class of members a quorum of each class of member or of the specific class of members must be present in person or by proxy.

If at any meeting of the Association a quorum is not present, a majority of the members who are present at such meeting, in person or by proxy, may recess or adjourn the meeting to such place, date and time as such members may agree, not less than twenty days after the time the original meeting was called, whereupon the Secretary shall announce the place, date and time at the meeting and make other reasonable efforts to notify all members of such place, date and

time. At any such future resumption of the meeting, a quorum shall be deemed present if members entitled to cast at least fifty percent of the total number of votes, who were present in proxy or in person at the original meeting which was adjourned, are present in person or by proxy.

Section 2.6. Order of Business. Unless otherwise specified in the notice of the meeting, the order of business at all meetings of the Association shall be as follows: (a) roll call (proof of quorum); (b) proof of notice of meeting; (c) reading of minutes of preceding meeting; (d) reports of officers; (e) report of Board of Directors; (f) reports of committees; (g) appointment of inspectors of election (when so required); (h) election of directors (when so required); (i) unfinished business; and (j) new business; provided, however, that balloting for election of directors may commence at any time at the direction of the presiding officer.

Section 2.7. Conduct of Meetings. The President shall preside over all meetings of the Association and the Secretary shall keep the minutes of the meetings and record all resolutions adopted at the meetings and proceedings occurring at such meetings. The President may appoint a parliamentarian at any meeting of the Association. The then current edition of Robert's Rules of Order, Newly Revised, shall govern the conduct of all meetings of the Association when not in conflict with the Act or the Association Documents, unless other rules of order are adopted by the Board of Directors.

Section 2.8. Record Date to Determine Members; List of Members. The date for determining which Persons are members and therefore entitled to vote ("Record Date") shall be the close of business on the day before the effective date of the notice to the members of the meeting, unless the Board of Directors shall determine otherwise. The Board shall not fix a Record Date more than seventy days before the date of the meeting or other action requiring a determination of the members, nor shall the Board set a Record Date retroactively. At least ten days before each meeting, the Secretary shall make a complete list of members, with the address of each, available for review by the members before and during the meeting. The list shall be current as of the Record Date.

Section 2.9. Action by Members Without Meeting. Any action required or permitted to be taken at a meeting of the Association may be taken without a meeting if written consent, setting forth the action so taken and signed by all of the members entitled to vote with respect to the subject matter thereof, is delivered to the Secretary for inclusion in the minutes or filing with the Association records. Such consent shall have the same force and effect as unanimous vote of the members.

### ARTICLE 3

#### MEMBERS AND VOTING

Section 3.1. Membership and Voting Rights. The voting rights of the members of the Association shall be as set forth in Article 4 of the Articles of Incorporation.

Section 3.2. Additional Provisions Governing Voting.

(a) Association Votes. If the Association is an Owner, the Association shall cast its votes with the majority with respect to any Lot it owns, and in any event such votes shall be counted for the purpose of establishing a quorum.

(b) Multiple-Person Owners. Since a member may be more than one Person, if only one of such Persons is present at a meeting of the Association, that Person shall be entitled to cast the member's votes. If more than one of such Persons is present, the vote appertaining to that member shall be cast only in accordance with unanimous agreement of such Persons, and such agreement shall be conclusively presumed if any of them purports to cast the vote appertaining to that member without protest being made forthwith to the Person presiding over the meeting by any of the other Persons constituting such member.

Such certificate shall be valid until revoked by a subsequent certificate similarly executed and filed. Wherever the approval or disapproval of a member is required by the Association Documents, such approval or disapproval may be made by any Person who would be entitled to cast the vote of such member at any meeting of the Association.

(c) Voting Certificate. If a member is not a natural person, the vote by such member may be cast by any natural person authorized by such member. Such natural person must be named in a certificate signed by an authorized officer, partner or trustee of such member and filed with the Secretary; provided, however, that any vote cast by a natural person on behalf of such member shall be deemed valid unless successfully challenged prior to the adjournment of the meeting at which the vote was cast or by the member entitled to cast such vote within ten days of the meeting.

(d) Delinquency. No member may vote at any meeting of the Association or be elected to serve on the Board of Directors if payment by such member of any financial obligation to the Association is delinquent more than thirty days, and the amount necessary to bring the account current has not been paid at the time of such meeting or election.

Section 3.3. Manner of Voting.

(a) At a Meeting. Voting by members at a meeting shall be by voice vote (except for the election of directors which shall be by written ballot), unless the presiding officer determines otherwise or any member present at the meeting, in person or by proxy, requests, and by a Majority Vote the members consent to, a vote by written ballot indicating the name of the member voting, the number of votes appertaining to such member, and the name of the proxy of such ballot if cast by a proxy. There shall be no cumulative voting.

(b) By Referendum. In the sole discretion of the Board of Directors, elections of directors or other matters permitted by law requiring a vote of the members may be submitted to a referendum of the members on a ballot, by mail or a polling places. Ballots shall be returned to the Secretary by the date specified on the ballot. The Board of Directors shall determine the method

of voting, the form of all ballots, the deadline for return of ballots and the number and location of polling places, if any.

Section 3.4. Proxies. A vote may be cast in person or by proxy. A proxy may be instructed (directing the proxy how to vote) or uninstructed (leaving how to vote to the proxy's discretion). Only instructed proxies may be granted by any member to the managing agent. No Person other than the Declarant, a Mortgagee, the managing agent or an Officer shall cast votes as a proxy for more than five Lots not owned by such Person. Proxies shall be in writing, shall be dated, shall be signed by the member or Person authorized by the member, shall be valid for eleven months unless a longer time period is provided in the proxy and shall be filed with the Secretary. Such proxy shall be deemed revoked only upon actual receipt by the person presiding over the meeting or of notice of revocation from the member. A sample proxy is attached as Exhibit A to the Bylaws.

#### ARTICLE 4

#### BOARD OF DIRECTORS

Section 4.1. Powers and Duties of the Board of Directors. The business and affairs of the Association shall be managed by the Board of Directors elected in accordance with the procedures and for the terms of office set forth in Article 5 of the Articles of Incorporation. The Board of Directors shall have all of the powers and duties necessary for the administration of the affairs of the Association and may do all such acts and things as are not required by the Act or by the Association Documents to be exercised and done by the Owners. The Board of Directors shall delegate to one of its members, or to a Person employed for such purpose, the authority to act on behalf of the Board on such matters relating to the duties of the managing agent (as defined in Article 5 hereof), if any, which may arise between meetings of the Board as the Board deems appropriate. In addition to the duties impose by any other provision of the Association Documents or by any resolution of the Association that may hereafter be adopted, the Board shall perform the following duties and take the following actions on behalf of the Association.

(a) Provide goods and services to the members in accordance with the Association Documents, and provide for Upkeep of the Common Area and, to the extent provided in the Association Documents, of the Lots.

(b) Designate, hire, dismiss and, where appropriate, compensate the personnel necessary to provide for the upkeep of the Common Area and, to the extent provided in the Association Documents, of the Lots, and provide goods and services to the members, as well as purchase equipment, supplies and materials to be used by such personnel in the performance of their duties.

(c) Collect the Assessments, deposit the proceeds thereof in depositories designated by the Board of Directors and use the proceeds to carry out the Upkeep of the Property to the extent the Association is so authorized by the Association Documents and the general administration of the Association.

(d) Adopt and amend any reasonable Rules and Regulations not inconsistent with the Association Documents.

(e) Open bank accounts on behalf of the Association and designate the signatories thereon.

(f) Enforce the provisions of the Association Documents.

(g) Act with respect to all matters arising out of any eminent domain proceeding affecting the Common Area owned in fee simple by the Association.

(h) Notify the members of any litigation against the Association involving a claim in excess of twenty percent of the total Annual Assessment for Common Expenses.

(i) Obtain and carry insurance against casualties and liabilities, as provided in Article 10 of the Declaration, pay the premiums therefor and adjust and settle any claims thereunder.

(j) Pay the cost of all authorized goods and services rendered to the Association and not billed to Owners of individual Lots or otherwise provided for in Article 6 of the Declaration.

(k) Notify a Mortgagee of any default in paying Assessments for Common Expenses by an Owner (which remains uncured for sixty days) or for any other default, simultaneously with the notice sent to the defaulting Owner, if so requested by Mortgagee.

(l) Prepare an annual budget in accordance with Article 6 of the Declaration.

(m) Adopt an annual budget and make Assessments to defray the Common Expenses of the Association, and the Limited Common Expenses of the Association, establish the means and methods of collecting such Assessments and establish the period of the installment payment, if any, of the Annual Assessment for Common Expenses in accordance with Article 6 of the Declaration.

(n) Borrow money on behalf of the Association, when required for any valid purpose; provided, however, that either a Majority Vote of the Owners obtained at a meeting held for such purpose or written approval by Owners entitled to cast more than fifty percent of the total number of votes shall be required to borrow any sum in excess of twenty percent of the total Annual Assessment for Common Expenses for that fiscal year or, subject to Section 14.4 of the Declaration, mortgage any of the Common Area owned in fee simple by the Association. The Board of Directors, by a vote of two-thirds of the total number of Directors, shall have the right and power to assign and pledge all revenues to be received by the Association, including but not limited to Annual and Additional Assessments in order to secure the repayment of any sums borrowed by the Association from time to time.

(o) Sign deeds, plats of resubdivision and applications for construction permits or similar documents for the Common Area owned fee simple by the Association, as may be necessary or

desirable in the normal course of the orderly development of the Property, at the request of the Declarant or on its own determination.

(p) Dedicate or transfer any portion of the Common Area owned in fee simple by the Association or grant easements, rights-of-way or licenses over and through all the Common Area pursuant to Section 3.1 of the Declaration and subject to the restrictions set forth in Section 14.4 of the Declaration.

(q) Suspend the right of any Owner or other occupant of a Lot, and the right of such Person's household guests, tenants, agents and invitees to use the Common Area in accordance with Section 12.1 of the Declaration.

(r) Provide an Association Disclosure Packet or Common Expense Statement with respect to a Lot within fourteen days after a written request and payment of the appropriate fee in accordance with the Declaration.

(s) Do anything else not inconsistent with the Act or the Association Documents.

(t) Charge reasonable fees for the use of the Common Area and for services, and allow non-owners to use portions of the Common Area on a fee arrangement determined by the Board.

(u) In its sole discretion, designate certain portions of the Common Area as Reserved Common Area, pursuant to Section 3.7 of the Declaration, and impose such restrictions and conditions on the use thereof as the Board of Directors deems appropriate.

(v) Acquire, hold and dispose of Lots to enforce the collection of Assessments and mortgage the same without the prior approval of the Owners if such expenditures and hypothecation are included in the budget.

Section 4.2. Number of Directors. The Board of Directors shall initially consist of three directors as provided in the of the Articles of Incorporation.

## ARTICLE 5

### MANAGING AGENT

The Board of Directors may employ for the purpose of administering the Property a "managing agent" at a compensation to be established by the Board. The managing agent must be able to advise the Board of Directors regarding the administrative operation of the Property and shall employ personnel knowledgeable in the areas of insurance, accounting, contract negotiation, labor relations and property management. The managing agent shall perform such duties and services as the Board of Directors shall direct. The Board of Directors may delegate to the managing agent all of the powers granted to the Board of Directors by these Bylaws other than the powers set fourth in Paragraph 4.1 (d), (m), (n), (o), (p), (q). The managing agent shall perform the obligations, duties and services relating to the management of the Property, the rights

of Mortgagees and the maintenance of reserve funds in compliance with the provisions of the Act and the Association Documents. Any contract with the managing agent must provide that it may be terminated, without payment of a termination fee, without cause on no more than ninety days written notice and with cause on no more than thirty days written notice.

## ARTICLE 6

### OFFICERS

Section 6.1. Designation and Duties of Officers. The principal officers of the Association shall be the President (who shall also serve as Chairman of the Board of Directors), the Vice President, the Secretary and the Treasurer, all of whom shall be elected by a Majority Vote of the Board of Directors. The Board of Directors may also elect an assistant treasurer, an assistant secretary and such other Officers as in its judgement may be necessary. The President and Vice President shall be Owners (except for those directors designated or elected by the Declarant) and members of the Board of Directors. Any other Officers may, but not need not, be Owners, representatives of Owners or directors. Each Officer shall perform such other duties as may be assigned to such office in parliamentary organizations, except to the extent (if any) inconsistent with the Act or the Association Documents, and shall perform such other duties as may be assigned to such officer by resolution of the Board of Directors. If any Officer is unable for any reason to perform the duties of the office, the President (or the Board of Directors if the President fails to do so) may appoint another qualified person to act in such Officer's stead on an interim basis.

Section 6.2. Election of Officers. The Officers of the Association shall be elected annually by the Board of Directors at the organizational meeting of each new Board and shall hold office at the pleasure of the Board. Any Officer may hold more than one position; provided, however, that the offices of President, Vice President and Secretary shall be held by three different individuals. Except for death, resignation or removal, the Officers shall hold office until their respective successors shall have been elected by the Board.

Section 6.3. Resignation or Removal of Officers. Any Officer may resign by delivering written notice to the Board of Directors. Unless otherwise specified, such resignation shall take effect upon the receipt thereof, and acceptance of such resignation shall not be necessary to make it effective. Upon the affirmative vote of a majority of the total number of directors any Officer may be removed, either with or without cause, and a successor may be elected at any regular meeting of the Board or at any special meeting of the Board called for such purpose.

Section 6.4. Vacancies. A vacancy in any office may be filled by appointment by the Board of Directors. The person appointed to fill a vacancy shall serve for the remainder of the term of the officer such person replaces.

Section 6.5. President. The President shall be the chief executive officer of the Association; precede at all meetings of the Association and of the Board of Directors; have general and active direction of the business of the Association subject to the control of the Board;



see to the execution of the resolutions of the Association and the Board of Directors; see that all orders and resolutions of the Board are carried into effect; and, in general, perform all the duties incident to the office of President.

Section 6.6. Vice President. The Vice President shall take the place of the President and perform the duties of the President whenever the President shall be absent or unable to act. If neither the President nor the Vice President is able to act, the Board of Directors shall appoint some other director to act in the place of the President, on an interim basis. The Vice President shall also perform such other duties as shall from time to time be imposed by the Board of Directors or by the President.

Section 6.7 Secretary. The Secretary shall: keep the minutes of all meetings of the Association and of the Board of Directors; have charge of such books and papers as the Board may direct and as may be required by Section 13.1-932 of the Act and Section 55-510 of the Virginia Property Owners' Association Act; give or cause to be given all notices required to be given by the Association; give each member notice of Assessment as soon as practicable after Assessment is made; give each member notice and a copy of the Rules and Regulations or amendment thereof; maintain a register setting forth the place to which all notices to members and Mortgagees hereunder shall be delivered; file or cause to be filed the annual report required by Section 55-516.1 of the Virginia Property Owners' Association Act or as otherwise required by law; make it possible for any member or Mortgagee to inspect and copy at reasonable times and by appointment the records of the Association; and, in general, perform all the duties incident to the office of Secretary.

Section 6.8. Treasurer. The Treasurer shall be responsible for Association funds and securities; keep or cause to be kept full and accurate financial records and books of account showing all receipts and disbursements; prepare or cause to be prepared all required financial data, including the Statement of Common Expenses required by Section 6.6. of the Declaration; deposit or cause to be deposited all monies and other valuable effects in the name of the Board of Directors or the Association in such depositories as may from time to time be designated by the Board; and, in general, perform all the duties incident to the Office of Treasurer.

Section 6.9. Managing Agent. The managing agent may perform the duties of the Secretary or Treasurer at the discretion of the Board of Directors or such Officers.

## ARTICLE 7

### COMMITTEES

Section 7.1. Covenants Committee. The Board of Directors shall establish a Covenants Committee as set forth in Article 9 of the Declaration.

Section 7.2. Other Committees. The Board of Directors may create and abolish from time to time such other committees consisting of two or more persons as the Board may deem appropriate to aid in the administration of the affairs of the Association. Such committees shall

have the powers and duties fixed by resolutions of the Board from time to time. The Board shall appoint the chair of each committee, and may either appoint the other members thereof or leave such appointment to the committee member with or without cause upon written notice.

## ARTICLE 8

### MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

Section 8.1. Types of Meetings. The first (organizational) meeting of the Board of Directors following an annual meeting of the Association shall be held within thirty days thereafter at such time and place as shall be determined by a majority of the directors to elect Officers, appoint committee members and establish the manner of operation of the Board for the ensuing year. Regular meetings of the Board of Directors may be held at such time and place as shall be determined from time to time by a majority of the directors; provided, however, that after the Declarant Control Period, such meetings shall be held at least quarterly during each fiscal year. Special meetings of the Board of Directors may be called by the President, and shall be called by the President or Secretary upon the written request of at least two directors. Meetings of the Covenants Committee or any other committee or subcommittee shall be held on an as-needed basis, as determined by the Board of Directors. All meetings of the Board of Directors or any committee shall be open to members as observers, except that the President or presiding officer or chairman of a committee may call the Board or committee into litigation strategy or hearings with respect to violations of the final action taken in executive session on sensitive matters such as personnel, litigation strategy or hearings with respect to violations of the Association Documents or as otherwise permitted by law. Any final action taken in executive session shall be recorded in the minutes. The Board of Directors or any committee may hold their meetings in the Commonwealth of Virginia or outside the state as the Board may from time to time determine.

Section 8.2. Notice. Notice of meetings shall be given to each director or committee member, as appropriate, personally or by mail, telegraph or telephone, orally or in writing, at least three business days prior to the date named for such meeting. Such notice shall state the place, date and time and, in the case of special meetings, the purpose thereof. Notice of meetings shall also be posted or otherwise published in a manner reasonably expected to notify all members of the Association of the place, date and time of Board of Directors or committee meetings. No notice of the organizational meeting of the Board of Directors shall be necessary if such meeting is held immediately following the annual meeting.

Section 8.3. Waiver of Notice. Any director or committee member, as appropriate, may at any time, in writing, waive notice of any meeting of the Board of Directors, and such waiver shall be deemed equivalent to the giving of such notice. Attendance at any meeting shall constitute a waiver of notice of the time, place and purpose of such meeting, unless the director or committee member attends for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called or convened and so notifies the person conducting the meeting at or prior to consideration of the matter subject to objection. If all directors or committee members, as appropriate, are present at any meeting of the Board of

Directors or committee, no notice shall be required and any business may be transacted at such meeting.

Section 8.4. Quorum. At all meetings of the Board of Directors or a committee, a majority of the total number of directors or committee members, as appropriate, shall constitute a quorum for the transaction of business, and a Majority Vote while a quorum is present shall constitute the decision of the Board of Directors, unless provided otherwise in the Act, the Articles of Incorporation or the Bylaws. If at any meeting there is less than a quorum present, a majority of those present may recess or adjourn the meeting from time to time. When the meeting which was recessed or adjourned is reconvened, so long as a quorum is present, any business which might have been transacted at the meeting originally called may be transacted without further notice. A director or committee member, as appropriate, who participates in a meeting by any means of communication by which all directors or committee members may simultaneously hear each other during the meeting shall be deemed present at the meeting for all purposes.

Section 8.5. Conduct of Meetings. The President shall preside over meetings of the Board of Directors and the Secretary shall keep the minutes of the meetings and record all resolutions adopted at the meetings and proceedings occurring at the meetings. The chairman of a committee shall preside over the meeting of the committee and may appoint any member of the committee to keep minutes. The then current edition of Robert's Rules of Order, Newly Revised, shall govern the conduct of the meetings of the Board of Directors or committee when not in conflict with the Act or the Association Documents, unless other rules of order are adopted by the Board of Directors.

Section 8.6. Action Without Meeting. Any action by the Board of Directors or a committee required or permitted to be taken at any meeting may be taken without a meeting if a consent in writing setting forth the action taken shall be signed either before or after such action is taken by all of the directors or committee members, as appropriate. Any such written consent shall have the same force and effect as a unanimous vote and shall be filed with the minutes of the Board of Directors or committee.

## ARTICLE 9

### FIDUCIARY DUTIES

Section 9.1. Execution of Documents. Unless otherwise provided in the resolution of the Board of Directors:

(a) all agreements, contracts, deeds, leases, checks and other instruments of the Association for expenditures or obligations in excess of ten percent of the total Annual Assessment for Common Expenses for that fiscal year, and all checks drawn upon reserve accounts, shall be signed by any two persons designated by the Board of Directors;

(b) all such instruments for expenditures or obligations of ten percent or less of the total Annual Assessment for Common Expenses for that fiscal year, except from reserve accounts, may

be signed by any one person designated by the Board of Directors. Notwithstanding the foregoing, instruments creating or paying obligations for less than Five Thousand Dollars, except for withdrawals from the reserve funds, may be signed by only one person. Any Officer or the Association may be designated by Board resolution to sign a Statement of Common Expenses or an Association Disclosure Packet on behalf of the Association.

Section 9.2. Conflicts of Interest. Each director or Officer shall exercise such director's or Officer's powers and duties in good faith and in the best interests of the Association. Any common or interested director or Officer may be counted in determining the presence of a quorum of any meeting of the Board of Directors, a committee or the members which authorized, approves or ratifies any contract or transaction, but such director's or Officer's vote shall not be counted with respect to any matter as to which such director or Officer would have a conflict of interest. Such director or Officer may vote, however, at the meeting to authorize any other contract or transaction. The voidability of a transaction involving a director or Officer with a conflict of interest shall be determined in accordance with Section 13.1-871 of the Act.

Section 9.3. Liability and Indemnification.

(a) No Personal Liability. The directors, Officers and members of the Covenants Committee shall not be liable to the Association, any member or any other person for any mistake of judgement, negligence or otherwise, except for their own individual willful misconduct or bad faith. Directors and Officers shall have no personal liability with respect to any contract made by them on behalf of the Association. No member shall be liable for the contract or tort liability of the Association by reason of ownership or membership therein. Every agreement made by the Board of Directors, the Officers or the managing agent on behalf of the Association shall, if obtainable, provide that the directors, the Officers or the managing agent, as the case may be, are acting only as agents for the Association and shall have no personal liability thereunder.

(b) Indemnification. The Association shall indemnify the directors, Officers and members of the Covenants Committee to the extent that it is contemplated a nonstock corporation may indemnify its directors, officers and employees pursuant to Sections 13.1-875 through 13.1-883 of the Act; provided, however, that before the Association uses association funds for indemnification, all insurance proceeds must be obtained and applied toward such indemnification. The foregoing right of indemnification shall not be exclusive by law, agreement, vote of the members or otherwise.

(c) Directors and Officers Liability Insurance. The Association shall have the power, pursuant to Article 10 of the Declaration, to purchase and maintain insurance on behalf of any person who is or was a director, Officer or member of the Covenants Committee against any liability asserted against such person and incurred by such person in any such capacity or arising out of such person's status as such, whether or not the Association would have the power to indemnify such person against such liability under the provisions of this section. Further, the availability or the Association's indemnity shall not relieve any insurer of any liability under an insurance policy held by the Association.

Section 9.4. Compensation of Directors and Officers. No salary or other compensation shall be paid by the Association to any director or Officer of the Association for serving or acting as such, but this shall not preclude the payment of salary or other compensation for the performance by such director or Officer of other services to the Association nor shall it preclude the reimbursement of reasonable, ordinary and necessary expenses incurred in serving or acting as a director or Officer.

## ARTICLE 10

### BOOKS AND RECORDS

Section 10.1. Maintenance. The Association shall keep books and records as required by Section 13.1-932 of the Act and Section 55-510 of the Virginia Property Owner's Association Act or as otherwise required by law. All books and records shall be kept in accordance with generally accepted accounting principles, and the same shall be reviewed at least once a year by an accountant retained by the Board of Directors who shall not be an Owner or an occupant of a Lot. Upon the request of any Mortgagee, any Secondary Mortgage Agency or upon a Majority Vote of the members (or the written request of members entitled to cast more than fifty percent of the total number of votes) or as otherwise determined by the Board of Directors, the books and records shall be audited. The cost of such audit or review shall be a Common Expense. The Association shall also file and maintain the annual reports required to be filed with the Virginia State Corporation Commission by Section 13.1-936 of the Act and the Virginia Real Estate Board in Section 55-516.1 of the Virginia Property Owner's Association Act or otherwise required by law.

Section 10.2. Availability. The books and records of the Association shall be available for examination by the members, their attorneys, accountants, Mortgagees and authorized agents during general business hours on business days at the time and in the manner established by the Board of Directors for the general knowledge of the members in accordance with Section 13.1-933 of the Act, and Section 55-510 of the Virginia Property Owners' Association Act. The list of members required by Section 2.8 hereof shall be available for inspection for a period of ten days prior to the meeting and at the meeting. Pursuant to Section 13.3 of the Declaration, all Mortgagees or their representatives shall have the right to examine the books and records of the Association on the same terms and conditions as the members. The Board of Directors may fix from time to time a reasonable charge to cover the direct and indirect costs of providing any documents.

Section 10.3. Accounting Report. Within ninety days after the end of each fiscal year, the Board of Directors shall make available to all members, and to each Mortgagee requesting the same, an itemized accounting of the Common Expenses for each fiscal year actually incurred and paid, together with a tabulation of the amounts collected pursuant to the budget adopted by the Board of Directors for such fiscal year, and showing the net amount over or short of the actual expenditures plus reserves.

Section 10.4. Fiscal Year. The first year of the Association shall begin on the date of the first conveyance to an Owner other than the Declarant and end on the last day of December, unless otherwise determined by the Board of Directors.

## ARTICLE 11

### NOTICES

Except as specifically provided otherwise in the Act or the Association Documents, all notices, demands, bills, statements or other communications under the Association Documents shall be in writing and shall be deemed to have been duly given if hand delivered personally to the member or the member's address of record or delivered by telegraph, teletype or other form of wire or wireless communication or by private carrier or sent United States mail, postage prepaid pursuant to Section 13.1-810 of the Act, or if notification is of a default, hearing or lien, sent by registered or certified United States mail, return receipt requested, postage prepaid: (a) if to a member, at the address which the member shall designate in writing and file with the Secretary or, if no such address is designated, at the address of the lot of such member; (b) if to the Association, the Board of Directors or the managing agent, at the principal office of the managing agent or at such other address as shall be designated by notice in writing to the members pursuant to this section; or (c) if to a Mortgagee, at the address indicated by the Mortgagee in a written notice to the Association. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the address shown in the Association records. If a Lot is owned by more than one Person, each such Person who so designates an address in writing to the Secretary shall be entitled to receive all notices hereunder, otherwise, the Person receiving the notice shall have the responsibility for notifying the other Persons comprising the Owner.

## ARTICLE 12

### AMENDMENTS

These Bylaws may be amended only by a Majority Vote of the members if the proposed amendment has been inserted in the notice of meeting or all of the members are present in person or by proxy. The Board of Directors shall send any amendment to the members within thirty days after adoption. No amendment to these Bylaws may diminish or impair the rights of the Declarant under the Bylaws without the prior written consent of the Declarant. No amendment to these Bylaws may diminish or impair the rights of the Mortgagees under the Bylaws.

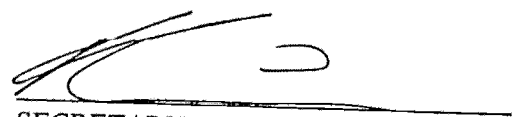
CERTIFICATION

I, the undersigned, do hereby certify:

THAT I am the duly elected and acting secretary of SALEM RUN HOMEOWNERS ASSOCIATION, INC., a Virginia nonstock Corporation, and

THAT the foregoing Bylaws constitute the original Bylaws of the Association, as duly adopted by the Board of Directors pursuant to the Organizational Minutes dated ~~October~~ <sup>December</sup> 11,

1995. IN WITNESS WHEREOF, I have hereunto subscribed my name on ~~October~~ <sup>December</sup> 11, 1995.

  
SECRETARY

**CC&Rs**  
**SALEM RUN HOA INC.**



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DECLARATION

FOR

SALEM RUN HOMEOWNERS ASSOCIATION, INC.

THIS DECLARATION is made as of \_\_\_\_\_, 1995, by SALEM RUN COMPANY, LLC, a Virginia Limited Liability Company ("Declarant"); SALEM RUN ASSOCIATES, L.P., a Virginia limited partnership ("Salem Associates"), HOMES FOR FREDERICKSBURG L.P., a Virginia limited partnership ("Homes"), CANNON/SALEM RUN, L.P., a Virginia limited partnership ("Cannon"), and SALEM RUN HOMEOWNERS ASSOCIATION, INC., a Virginia nonstock corporation ("Association").

RECITALS:

R-1. Salem Associates owns in fee simple that parcel of 13.1050 acres described hereinafter, which is a portion of the Submitted Land, and desires to subject such land to the covenants, restrictions, reservations, easements, servitudes, liens and charges more particularly hereinafter set forth.

R-2. Cannon owns in fee simple that parcel of 0.8894 acres subdivided as Section 5, Phase 1-A of Salem Run Subdivision as described hereinafter, which is a part of the Submitted Land, and desires to subject such land to the covenants, restriction, reservation, easements, servitudes, liens, and charges more particularly hereinafter set forth.

R-3. Homes owns in fee simple that parcel of 4.1179 acres subdivided as Parcel F2B, Salem Run Subdivision as described hereinafter, which is a part of the Submitted Land, and desires to subject such land to the covenants, restriction, reservation, easements, servitudes, liens, and charges more particularly hereinafter set forth.

R-4. The Declarant wishes to reserve the right to add the land designated as Additional Land in the legal description attached as Exhibit B, and may hereafter decide to subject all or any portion of that Additional Land, to the provisions of this Declaration, as may be amended from time to time.

R-5. The Declarant deems it desirable and in the best interests of all the owners of land subject to this Declaration to protect the value and the desirability of such land by providing for the development of such land in accordance with a common plan and the maintenance of certain shared facilities.

R-6. To provide a means for meeting the purposes and intents set forth herein, the

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Declarant has caused the Association to be incorporated under the laws of the Commonwealth of Virginia. By its signature hereto the Association assumes the responsibilities assigned to the Association herein.

NOW, THEREFORE, the Declarant, Association, Cannon, Homes and Salem Associates hereby covenant and declare, on behalf of themselves and their respective successors and assigns, that from the date this Declaration is recorded, the land designated as Submitted Land in Exhibit A hereto shall be held, conveyed, acquired and encumbered subject to the terms and provisions hereof, all of which shall run with the land (including all improvements thereon) and bind and inure to the benefit of all Persons who may now or hereafter own or acquire any right, title, estate or interest in or to any of such land, or who may now or hereafter occupy or enter upon any portion thereof, subject to the right of the Declarant or the Association to amend this Declaration from time to time in accordance with the provisions for amendment set forth herein.

## PART ONE

### ARTICLE I

#### GENERAL PROVISIONS

Section 1.1. Definitions. Terms used herein without definition shall have the meanings specified for such terms in Section 13.1-803 of the Act. Capitalized terms used herein shall have the meanings specified for such terms below.

(a) "Act" means the Virginia Nonstock Corporation Act, Chapter 10 of Title 13.1 of the Code of Virginia (1950), as amended, supplemented or replaced from time to time. "POA Act" means the Virginia Property Owner's Association Act, Chapter 26 of Title 55 of the Code of Virginia (1950), as amended, supplemented or replaced from time to time.

(b) "Approval of Secondary Mortgage Agencies or Mortgages" means: (i) written approval; (ii) any written waiver of approval rights; (iii) a letter stating no objection; or (iv) presumptive approval if a Secondary Mortgage Agency or Mortgagee does not respond to a notice by certified or registered United States mail, return receipt requested, within thirty days after the date the request for approval is transmitted in accordance with the notice requirement of Article 11 of the Bylaws and Sections 13.2 and 14.4 hereof.

(c) "Articles of Incorporation" means the Articles of Incorporation for Salem Run Homeowners Association, Inc., filed with the Virginia State Corporation Commission, as amended from time to time.

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- (d) "Assessments" means the sums levied against the Lots to pay Common Expenses as provided in Article 6 hereof. Assessments include Annual Assessments, Additional Assessments and Individual Assessments and Special Assessments (levied pursuant to Section 55-514 of the POA Act).
- (e) "Association" means Salem Run Homeowner Association, Inc., and, with respect to the rights and obligations of the Association set forth in this Declaration, its successors and assigns.
- (f) "Association Documents" means collectively, the Articles of Incorporation, this Declaration, Supplementary Declarations, and the Bylaws, all as amended from time to time. Any Exhibit, schedule, certification or amendment to an Association Document is an integral part of that document. "Subassociation" means any owners association, condominium unit owners association or cooperative association subject to the Declaration and governing some but less than all, of the Property pursuant to covenants recorded among the Land Records.
- (g) "Board of Directors" or "Board" means the executive and administrative entity established by Article 5 of the Articles of Incorporation as the governing body of the Association.
- (h) "Builder" means a Person who purchases a portion of the Submitted Land for the purpose of constructing improvements for resale or rental.
- (i) "Bylaws" means the Bylaws of the Association, as amended from time to time.
- (j) "Common Area" means, at any given time, all of the Property then owned by the Association and available to the Association for the benefit, use and enjoyment of the Owners.
- (i) "Reserved Common Area" means a portion of the Common Area for which the Board of Directors has granted a revocable license for exclusive use pursuant to Section 3.7.
- (ii) "Limited Common Area" means a portion of the Common Area which has been designated by the Declarant pursuant to Section 3.7 for the exclusive or primary use, as appropriate, of Owners of one or more but less than all of the Lots.
- (k) "Common Expenses" means all expenditures made by or on behalf of the Association, together with all funds determined by the Board of Directors to be reasonably necessary for the creation and maintenance of reserves pursuant to the provisions of the Association Documents. Except when the context clearly requires otherwise, any reference to Common Expenses includes Limited Common Expenses.

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(i) "Limited Common Expenses" means all expenditures made by or on behalf of the Association and benefiting one or more but less than all of the Owners and assessed against the Lots owned by the Owners benefited pursuant to Subsection 6.2(a) (ii) hereof.

(ii) "Recreational Facilities Expenses" means all expenses incurred by or on behalf of the Association for the management and upkeep of and insurance for the Recreational Facilities and such amounts as the Board of Directors may determine to be necessary to create reserves for the repair and replacement of the Recreational Facilities.

(l) "Covenants Committee" means the committee that may be established pursuant to Article 9 hereof to assure that the Property will be maintained in a manner consistent with the purposes and intents of this Declaration.

(m) "Community Facilities" means facilities serving the Salem Run Community including, without limitation the stormwater management facilities, ponds and easement areas, landscaping (including associated irrigation systems, if any), signage, (including entrance features), paths, trails and sidewalks (including associated lighting or street furniture), fencing and street lights.

(n) "Declarant" means the Salem Run Company LLC, a Virginia Limited Liability Company. Following recordation of an instrument assigning to another Person all or some of the rights reserved to the Declarant under the Association Documents, pursuant to Section 5.2 hereof the term "Declarant" shall mean or include that assignee.

(o) "Declarant Control Period" means the period ending on the earliest of: (i) the later of (A) the tenth anniversary of the date of recordation of the Declaration or (B) the fifth anniversary of the date of recordation of the most recent Supplementary Declaration adding Additional Land (provided, however, that once the Declarant Control Period has expired, the recordation of a subsequent Supplementary Declaration shall not reinstate the Declarant Control Period; and provided, further, that if the Declarant is delayed in the improvement and development of the Property due to a sewer, water or building permit moratorium or other cause or event beyond the Declarant's control, then the aforesaid period shall be extended for a period of the delay or three years, whichever is less); (ii) the date seventy-five percent of the single family detached and townhome residential dwellings permitted to be located on the Submitted Land or the Additional Land are initially occupied or owned by Owners other than Declarant or a Builder (the foregoing number may be increased or reduced in accordance with any amendments to the Development Plan affecting the number of permitted dwellings or if Exhibits A or B are amended to describe land not originally described in Exhibits A or B which would result in an increased number of permitted single family detached and townhome dwellings); (iii) the date specified by the Declarant in a written notice to the Association that the Declarant Control Period is to terminate on that date; or (iv) the end of the Development Period.

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(p) "Design Standards" means the standards developed by the Covenants Committee pursuant to Article 9 hereof and any standards established by the Declarant during the Development Period.

(q) "Development Period" means the period of time that the Declarant or Builders are engaged in development or sales or activities relating thereto, anywhere on the Property and the Declarant is entitled to exercise certain Special Declarant Rights under the Association Documents. When all the Submitted Land has been conveyed to Owners other than the Declarant or a Builder, and all bonds held by a governmental agency with respect to the Property have been released, then the Development Period shall end.

(r) "Land Records" means the land records of Spotsylvania County, Virginia, the jurisdiction in which the Property is located.

(s) "Lot" means a portion of the Property which is a separate subdivided lot of record or any other parcel of Submitted Land held in separate ownership (but not including the land designated as Common Area and owned by the Association or dedicated for public street purposes), together with any improvements now or hereafter appurtenant hereto.

(t) "Majority Vote" means a simple majority (more than fifty percent) of the votes entitled to be cast by members present in person or by proxy at a duly held meeting of the members at which a quorum is present. Any vote of a specified percentage of member means that percentage with respect to the total number of votes actually cast by members present in person or by proxy at a duly held meeting at which quorum is present. Any vote by a specified percentage of the Board of Directors (or committee) means that percentage with respect to votes entitled to be cast by directors (or committee members) present at a duly held meeting of the Board of Directors (or committee) at which a quorum is present. Any vote of or approval by a specified percentage of the Mortgagees means a vote of or approval (whether actual or presumed) by the Mortgagees of Lots calculated based on one vote for each Lot on which a Mortgage is held by a Mortgagee.

(u) "Mortgagee" means an institutional lender (one or more commercial or savings banks, savings and loan association, trust companies, credit unions, industrial loan associations, insurance companies, pension funds or business trusts, including but not limited to real estate investment trusts, any other lender regularly engaged in financing the purchase, construction or improvement of real estate, or any assignee of loans made by such lender, or any combination of any of the foregoing entities) holding a first mortgage or first deed of trust ("Mortgage") encumbering a Lot which has notified the Board of Director of its status in writing pursuant to Section 13.2 hereof and has requested all rights under the Association Documents. Only for the purposes of the notice and inspection rights in Article 13, 14 and 15 of the Declaration, the term "Mortgagee" shall also include the Federal Housing Administration (FHA), the Federal Home Loan Mortgage Corporation (FHLMC), The Federal National Mortgage Association (FNMA), The Department of Veterans Affairs (VA), the Government National

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Mortgage Association (GNMA) and any other public or private secondary mortgage market entity participating in purchasing, guaranteeing or insuring Mortgages which has notified the Board of Directors of such participation in writing ("Secondary Mortgage Agencies").

(v) "Officer means any Person holding office pursuant to Article 6 of the Bylaws.

(w) "Owner" means one or more Persons who own a Lot in fee simple, but does not mean a Person having an interest in a Lot solely by virtue of a contract or as security for an obligation.

(x) "Person" means a natural person, corporation, partnership, association, trust or other entity capable of holding title or any combination thereof.

(y) "Property" means, at any given time, the Submitted Land, together with all improvements and appurtenances thereto now or hereafter existing.

(z) "Recreational Facilities" means the swimming pools, tennis courts, tot lots and associated community buildings and any other facilities owned by the Association available by membership but not including any areas such as, playing fields and trails open to all Owners.

(aa) "Rules and Regulations" means the rules and regulations governing the use, occupancy, operation and physical appearance of the Property adopted from time to time by the Board of Directors.

(ab) "Submitted Land" means the Land designated as such in Exhibit A hereto and all land which is from time to time submitted to the Declaration (including Lots and Common Area).

(ac) "Upkeep" means care, inspection, maintenance operation, repair, repainting, remodeling, restoration, improvement, renovation, alteration, replacement and reconstruction.

#### Section 1.2. Construction of Association Documents.

(a) Captions. The captions are inserted only for reference, and in no way define, limit or describe the scope of any provision.

(b) Pronouns. The use of the masculine gender shall be deemed to include the feminine and neuter genders, and the use of the singular shall be deemed to include the plural and vice versa, whenever the context so requires.

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(c) Severability. Each provision of an Association Document is severable from every other provision, and the invalidity of any one or more provisions shall not change the meaning of or otherwise affect any other provision. To the extent that any provision of the Association Documents is found to be overly broad or unenforceable and a narrower or particularly enforceable construction may be given to such provision, then the narrower or partially enforceable construction shall be applied and to the extent practical, the provision shall be enforced.

(d) Interpretation. If there is any conflict among the Association Documents, the Declaration and thereafter the applicable Supplementary Declaration, the Declaration shall control, except as to matters of compliance with the act, in which case the Articles of Incorporation shall control. Particular provisions shall control general provisions, except that a construction consistent with the Act shall in all cases control over any construction inconsistent therewith. The provisions of the Bylaw shall control over any conflicting provision of any rule, regulation or other resolution adopted pursuant to any of the Association Documents. The Association Document shall be construed together and shall be deemed to incorporate one another in full. Any requirements as to the content of one shall be deemed satisfied if the deficiency can be cured by reference to any of the others.

Section 1.3. The Association.

(a) Creation. The Association is a nonstock corporation organized and existing under the laws of the Commonwealth of Virginia, charged with the duties and vested with the powers prescribed by law and set forth in the Association Documents.

(b) Membership. Members of the Association shall at all times be, and be limited to, the Declarant (during the Development period) and the Persons who constitute Owners of the Lots. If more than one Person owns a Lot, then all of the Persons who own such Lot shall collectively constitute the Owner and be one member of the Association. Each such Person is entitled to attend all meetings of the Association. Membership in the Association is mandatory and automatic with ownership of a Lot.

(c) Classes of Members; Voting Rights. The Association shall have the classes of members with the voting rights set forth in Article 4 of the Articles of Incorporation and as follows:

The Class A members shall be the Owners of Lots other than the Declarant or Class C member. A Class A member shall have one vote for each Lot owned.

The Class B member shall be the Declarant. The Class B members shall have votes equal to the total number of total lots multiplied by three, less three votes for each vote held by a Class A Member.

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The Class C member shall be the Owners of the lots designated for multi-family units. The Class C member shall have one vote for each ten (10) units owned.

After the Declarant Control Board expires, the Declarant as the Class B member shall be entitled to one vote for each Lot owned by the Declarant. After the Development Period ends, the Class B membership shall cease to exist and all Class B membership shall become Class A memberships.

(d) Board Authority to Act. Unless otherwise specifically provided in the Act or the Association Documents, all rights, powers, easements, obligations and duties of the Association may be performed by the Board of Directors on behalf of the Association.

(e) Merger or Consolidation. Upon merger or consolidation of the Association with another association formed for similar purpose, the Association's properties, rights and obligations may be transferred to the surviving or consolidated Association, or alternatively, the properties, rights and obligations of the other association may be assumed by the Association, as the surviving corporation. No such merger or consolidation shall effect any revocation, termination, change or addition to this Declaration except pursuant to Articles 14 and 15 hereof.

## ARTICLE 2

### COMMON AREA

Section 2.1. Conveyance; Title. The Declarant shall convey Common Area to the Association in fee simple released from any encumbrance securing the repayment of monetary obligations incurred by the Declarant, but subject to all easements and other encumbrances then of record (including those created by this Declaration). The Common Area within a particular section or record plat shall be conveyed to the Association before the conveyance of any Lot to an Owner within that section or record plat, other than the Declarant or a Builder. The Association shall accept title to any real estate or property offered to the Association by the Declarant.

Section 2.2. Boundary Adjustments. The Association, acting through its Board of Directors without Owner or Mortgagee approvals, has the power at any time or times, consistent with the then existing zoning or subdivision ordinance of the applicable governmental authority, to transfer part of the Common Area for the purpose of adjusting Lot lines or otherwise in connection with the orderly subdivision and development of the Property; provided, however, that: (i) such transfer shall not reduce the portion of the Property designated as "open space" required in the subdivision comprising the Property at the time of the transfer, (ii) the Declarant or other Person requesting the transfer shall transfer or cause to be transferred to the Association as "Common Area" such portion of the Property as is necessary to maintain the total acreage designated as "Common Area" at that level existing at the time of the transfer or otherwise reasonably compensate the Association; (iii) the appropriate governmental authorities approve



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such lot line adjustments; (iv) documents showing each such lot line adjustment are submitted to VA if VA is guaranteeing a mortgage or FHA if FHA is insuring a Mortgage on a Lot affected by the adjustment; and (v) the boundary line adjustment is approved by all Owners of Lots for which the boundaries are being adjusted.

Section 2.3. Regulation of Common Area. The Board of Directors shall have the right to regulate use of the Common Area pursuant to Section 8.3 hereof and to charge fee for the use of Common Area, specifically Recreational Facilities, on an annual or user fee basis and may enter into agreements with neighboring property owners to provide for such use. The Board of Directors may also mortgage, dedicate or convey Common Area owned in fee simple by the Association or grant easements over and through the Common Area subject to the restrictions in section 14.4 hereof.

### ARTICLE 3

#### EASEMENTS

Section 3.1. Reservation of Easement Rights by the Declarant. The Declarant hereby reserves for itself and all Class B Members a non-exclusive easement and right of way in, through, over and across the Common Area for the following purposes: the storage of building supplies and materials, construction development and sales activities; and in, through, over and across the Lots and Common Areas for the installation, construction, maintenance, reconstruction and repair of sanitary sewer lines, water lines, cables, storm drains, storm water management facilities, footing drains, utilities and appurtenances to any of the same and for all other purposes reasonably related to the completion of construction and the provision of utility services, whether public or private, to the community and to other property adjacent to or in the vicinity of, the community; provided, however, that the Owners of such adjacent properties agree to bear a portion of the expense of keep for those facilities as is reasonably appropriate. In addition, the Declarant reserves an easement and right on, over and under the ground within any lot to maintain and to correct drainage of surface or subsurface water in order to maintain reasonable standards of health, safety and appearance. Such right includes the right to cut any trees, bushes, or shrubbery, make any grading of the land, or to take any other similar action reasonably necessary. The Declarant ( or Builder) shall at its cost and expense restore the affected property to its original condition as near as practicable. The Declarant further reserves a non-exclusive ornamental entrance easement and right of way in, through, over and across the Common Area for the purpose of constructing and erecting signs on the Property. Upon completion of any activity herein described on the Property, the Declarant shall repair and maintain same at its cost and expense. Any and all instruments of conveyance made by the Declarant to the Association with respect to any of the Common Area shall be conclusively deemed to incorporate these reservations, whether or not specifically set forth in such instrument. Upon the written request of the Declarant, the Association shall from time to time execute, acknowledge and deliver to the

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Declarant such further assurances of these reservations as may be necessary. Further the Declarant hereby reserves to itself and its successor or assigns an easement and a right to grant and reserve easements or to vacate or terminate easements across all Lots and Common Area as may be required by any governmental agency or authority in connection with the release of bonds or the acceptance of streets for public maintenance or otherwise held by a governmental agency.

Section 3.2. Easements for Utilities and Related Purposes. The Association, by and through its Board of Directors, is authorized and empowered to grant (and shall from time to time grant) such other licenses, easement and rights of way over the Common Area for the installation, constructing, operating, maintaining, regulating, repairing or replacing equipment used to provide any sanitary and storm sewer, streetlights, water lines, electrical cable, television or other communication cables, gas lines, storm drains, cables, underground conduits and such other purposes related to the provision of the utility services to the community as may be considered necessary and appropriate by the Board of Directors for the orderly maintenance, preservation and enjoyment of the Common Area and for the preservation of the health, safety, convenience and welfare of the Owners or the Declarant.

Section 3.3. Easement for Governmental Personnel and Ingress - Egress. A right of entry on, over and across any Lot or Common Area is hereby granted to law enforcement officers, animal control officers, and fire and rescue personnel as needed to carry out their duties, including enforcement of cleared emergency vehicle access. An easement of ingress and egress is hereby granted in favor of all Members, their invitees, guests and tenants on, over and across the private streets within the Common Area as indicated on Subdivision Plats provided such Members, invitees, guests and tenants comply with the provisions of this Declaration and such other rules as the Board of Directors may promulgate in its discretion.

Section 3.4. Easements for Encroachments. If any improvement on any Lot or portion of the Common Area now or hereafter encroaches on any other portion of the Property by reason of: (i) the original construction thereof; (ii) deviations within normal construction tolerances in the Upkeep of any improvement; or (iii) the settling or shifting of any land or improvement, easement is hereby granted to the extent of any such encroachment not in violation of the Spotsylvania County, Virginia ordinances for the period of time the encroachment exists. The Owner of the encroaching improvement shall also have an easement for the limited purpose of Upkeep of the encroaching improvement. This easement does not relieve any Owner or any other Person from availability for such Owner's or other Person's negligence or willful misconduct.

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Section 3.5. Limitations on Exercise of Rights and Easements.

(a) Other Easements. These easements are subject to all other easements and encumbrances of record including those created by this Declaration.

(b) Notice. The Declarant or the Association, as appropriate, when exercising the rights and easements granted by this Article, shall: (i) give reasonable prior notice to all affected Owners, unless an emergency exists which precludes such notice; (ii) minimize any economic or aesthetic injury to the affected Lots or the Common Area; and (iii) not unreasonably interfere with the affected Owner's use, enjoyment and benefit from such Owners' Lots or the Common Area.

(c) Relocation. If an easement is relocated, the cost of such relocation shall be paid by the party requesting the relocation.

(d) Damage. Any damage resulting from the exercise of the aforesaid rights and easements shall be promptly repaired and the site restored to the extent practicable by the Declarant or the Association, as appropriate, or at the option of the Declarant or the Association, the Person responsible for such damage. In either case, the cost of such repair and restoration shall be paid for by the Person responsible for the damage.

Section 3.6 Land Submitted by Persons Other than the Declarant. Any Person other than the Declarant submitting real estate to this Declaration hereby grants to the Declarant, the Association and to each Owner all rights, easements and other interests with respect to such real estate granted or reserved in this Article and shall provide such further assurances as may be required.

Section 3.7 Reserved Common Area and Limited Common Area.

(a) Reserved Common Area. The Board of Directors shall have the power in its discretion from time to time to grant revocable licenses in the Common Area by designating portions of the Common Area as Reserved Common Area. Such Reserved Common Area shall be subject to such restrictions, reasonable changes and conditions on the use thereof as the Board may deem appropriate. Such Reserved Common Area shall be maintained by the Association or, at the Board's option, by the Persons having the exclusive right to use the Reserved Common Area. The Recreational Facilities shall also be deemed to be Reserved Common Area to be used by the Owners paying an Assessment for Recreation Facilities Expenses, and other Persons purchasing membership.

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(b) Limited Common Area. The Declarant shall have the right, for as long as the Declarant has the right to add Additional Land under Section 4.1 to restrict portions of the Common Area owned in fee simple by the Association in the nature of an easement for the exclusive (if specifically designated) or primary, as appropriate, use of the Owners of one or more specific Lots by designating such portions of the Common Area as Limited Common Area. The Declarant may describe the Limited Common Area or Common Area that may be assigned as Limited Common Area in a Supplementary Declaration and, may thereafter unilaterally record an instrument assigning such Limited Common Area. The Declarant shall not, however, designate Common Area as Limited Common Area or Common Area that may be assigned as Limited Common Area once a Lot in that Section has been conveyed to an Owner other than the Declarant or a Builder.

#### ARTICLE 4

##### EXPANSION OF THE PROPERTY

Section 4.1. Expansion by the Declarant. The Declarant hereby reserves a right until the twenty-fifth anniversary of the date of recordation of this Declaration to expand the Property from time to time without the approval of the Association or any Owner (except the owner of such land) or Mortgagee by unilaterally submitting all or any portion of the Additional Land to the provisions of this Declaration and the jurisdiction of the Association whether or not such land is owned by the Declarant. The right to expand may be terminated only upon the recordation by the Declarant of an instrument relinquishing such right. The Declarant reserves the unilateral right without the approval of the Association or any Owner (except the owner of such land) or Mortgagee to sign and record a Supplementary Declaration, subjecting any portion of the Property to such additional covenants and restrictions as may be necessary to reflect the different characteristics of such portion of the Property to such additional covenants and restrictions as may be necessary to reflect the different characteristics of such portion of the Property as are not inconsistent with the overall scheme of the Declaration; provided, however, that the Declarant shall not record a Supplementary Declaration affecting a Lot after the conveyance of such Lot to an Owner other than the Declarant without the written consent of the Owner of such Lot. The Declarant shall add Additional Land in accordance with the procedures set forth in Section 4.3. There are no limitations on the right of expand except as set forth in this Article. If the Declarant does not submit all or any portion of the Additional Land to the Declaration, such land may be developed in any manner allowable under local zoning ordinance without regard to the restrictions in this Declaration.

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Section 4.2. Expansion by the Association. Only with the written consent of the fee simple owner of such land (if not the Association), and upon approval by: ( i ) at least a sixty-seven percent vote of Owners other than the Declarant during the Declarant Control Period or the written approval of Owners entitled to cast at least sixty-seven percent of the total number of votes entitled to be cast by Owners other than Declarant during the Declarant Control Period; and (ii) the written consent of the Declarant during the Development Period, the Association may submit any additional land to the provisions of this Declaration and the jurisdiction of the Association, in accordance with the procedures set forth in Section 4.3 and subject to the limitations of Section 14.4.

Section 4.3. Procedure for Expansion. The Association may record one or more amendments to the Declaration submitting the land described therein to this Declaration and to the jurisdiction of the Association ("Supplementary Declarations"). Each Supplementary Declaration shall include a legally sufficient description of the land added and shall designate such land with the term Phase followed by a unique identifier so as to differentiate between each phase of the Property. Any Supplementary may contain such additional provisions in this Declaration as may be necessary to reflect the different character of the land described therein and as are not inconsistent with the overall scheme of this Declaration; provided, however, that such additions shall not apply to any Lot previously submitted to this Declaration without the written consent of the Owner of the Lot subject to the additional provisions. Upon recording a Supplementary Declaration submitting land to the Declaration, the provisions of the Declaration shall apply to the land thereby added as if such land were originally part of the Submitted Land.

Section 4.4. Withdrawable Land. During the Development Period, the Declarant has the unilateral right from time to time, without the approval of the Association or any Owner or Mortgagee, to sign and record an amendment to the Declaration withdrawing any portion of the Submitted Land, if such land is ( i ) dedicated or is to be dedicated to public use; (ii) conveyed to a public agency; or (iii) zoned for commercial use; provided, however, that to withdraw a Lot not owned by the Declarant, the consent of the Owner is required. Any land dedicated to a public authority for public street purposes is automatically withdrawn and the Declarant may unilaterally, without the approval of any Owner or Mortgagee, record an instrument confirming such withdrawal.

The Declarant hereby also reserves a right to withdraw any Section of the Property until such time as a Lot in such Section is owned by an Owner other than the Declarant or a Builder. The Declarant may exercise such right without the approval of the Association or any Owner (except the owner of the land withdrawn) or Mortgagee, and such right may be terminated only upon the recordation by the Declarant of an instrument relinquishing such right as set forth herein and Section 14.1. The Declarant may record one or more amendments to this Declaration removing the Section described therein from the jurisdiction of the Declaration, and upon the recordation of such amendment, this Declaration shall thereupon cease to bind, run with or otherwise affect the real estate within that Section.

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Section 4.5. Salem Associates, as owner of that parcel of 13.1050 acres acquired from Salem Run Company, L.L.C. by Deed dated November 28, 1994, and record in Deed Book 1262, at page 425, joins herein for the sole purpose of submitting said land to the provisions of this Declaration, as the same may be amended from time to time.

Section 4.6. Cannon, as owner of that parcel of 0.8894 acres acquired from Salem Run Company, L.L.C. by Deed dated November 3, 1995, and recorded in Deed Book 1333 at page 241, joins herein for the sole purpose of submitted said land to the provisions of this Declaration, as the same may be amended from time to time.

Section 4.7. Homes, as owner of that parcel of 4.1179 acres acquired from Salem Run Company, L.L.C. by Deed dated November 13, 1995, and recorded in Deed Book 1335, at page 62, joins herein for the sole purpose of submitted said land to the provisions of this Declaration, as the same may be amended from time to time.

## ARTICLE 5

### SPECIAL DECLARANT RIGHTS: TRANSFER

Section 5.1. Special Declarant Rights. Special declarant rights are those rights reserved for the benefit of the Declarant as provided for in the Association Documents, and shall include without limitation the following rights: (i) to grant, terminate or use easements over and through the property for the purpose of making improvements within the Property as provided in Article 3 hereof; (ii) to maintain models, management offices, construction offices, sales offices, customer service offices or offices for similar purposes and signs advertising the Property as provided in Article 3 hereof; (iii) to exercise the rights and votes of the Class B member of the Association; (iv) to remove and replace any director elected by the Class B member; (v) to make unilateral amendments to the Association Documents as provided in Sections 4.1, 4.4 and 14.1 hereof; (vi) to withdraw Submitted Land pursuant to Section 4.4 hereof; and (vii) to exercise any other rights given to the Declarant rights with respect to the land owned by such Declarant without the approval of the Association, Owners or Mortgagees.

Section 5.2. Transfer of Special Declarant Rights. The Declarant may transfer Special Declarant Rights created or reserved under the Association Documents to any Person acquiring Lots by an instrument evidencing the transfer recorded in the Land Records. The instrument is not effective unless executed by the transferor and transferee; provided, however, that: (i) a Person acquiring all the Lots owned by a declarant at the time of transfer under a mortgage or deed of trust by foreclosures or deed in lieu of foreclosure; or (ii) a Person acquiring all the remaining undeveloped Lots, may unilaterally sign an instrument to acquire some or all of the

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special declarant rights with respect to the land acquired. A partial transfer of special declarant rights does not prevent the transferor declarant from continuing to exercise special declarant rights with respect to land retained by such declarant. The instrument providing for a partial transfer of Special Declarant Rights shall allocate voting rights between the transferor and the transferee or such Persons shall agree among themselves and notify the Association. Each Person having declarant rights under the Association Documents has the right to transfer such rights unilaterally with respect to land owned by such Person. If at any time the Declarant ceases to exist and has not made an assignment of the special declarant rights, a successor may be appointed by an amendment to the Declarant made pursuant to Section 15.2 hereof.

Section 5.3. No Obligations. Nothing contained in the Association Documents shall impose upon the Declarant or its successors or assigns any obligation of any nature to build, construct, renovate or provide any improvements. Neither the Declarant nor its successors or assigns shall be liable to any Owner or occupant by reason of any mistake in judgement, negligence, nonfeasance, action or inaction or for the enforcement or failure to enforce any provision of this Declaration.

ARTICLE V  
COMMON EXPENSES AND ASSESSMENTS

Section 6.1. Determination of Common Expenses and Budget.

(a) Fiscal Year. The first fiscal year of the Association shall be as determined in accordance with Section 10.4 of the Bylaws.

(b) Preparation and Approval of Budget.

(i) At least thirty days before the beginning of each fiscal year, the Board of Directors shall adopt a budget for the Association containing an estimate of the total amount considered necessary for the ensuing fiscal year to pay the cost of management and Upkeep of the Common Area and, to the extent provided in the Association Documents Upkeep of the Lots, and the cost of other expenses that may be declared to be Common Expenses by the Association Documents or by a resolution of the Board of Directors, including without limitation services provided to the Owners, Lots or Common Area.

(ii) Such budget shall also include such reasonable amounts as the Board of Directors considers necessary to provide working capital (available cash for day-to-day expenses which is otherwise uncommitted), a general operating reserve (including an amount to cover operating losses due to insurance deductibles) and reserves for contingencies (potential costs or liabilities which have not have incurred but which should be planned for) and reserves for replacement. At least forty days before the beginning of each fiscal year, the Board of Directors shall make available a copy of the budget in a reasonably itemized form which sets forth the amount of the Common Expenses. Such budget shall constitute the basis for determining the Assessment against each Lot.

(iii) The budget shall also reflect the separate assessment of Limited Common Expenses, including without limitation certain expenses (and reserves) relating to or benefiting one or more but less than all of the Lots, whether categorized by location or type of expense. Such expenses shall be assessed only against the Lots benefited in accordance with Subsection 6.2(a) (ii) hereof.



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(c) Installment Payments and Due Dates. Any and all such Assessments and other charges shall be a lien against each Owner's Lot as provided in Section 12.2 hereof. On or before the first day of each fiscal year, and the first day of each succeeding payment period in such fiscal year, each Owner shall pay to such Person, at such place as the Board of Directors may direct, that installment of the Annual Assessment which is due during such period. The Board of Directors shall establish one or more payment periods and the due dates for each such payment in each fiscal year; provided, however that payments shall be due not less than annually or more frequently than monthly, unless specifically provided otherwise herein.

(d) Initial Assessment and Initial Capital Payment.

(i) The first installment of the Annual Assessment for Common Expenses shall be prorated based upon the number of days remaining in the payment period and shall be due on the date the Lot is first subject to assessment pursuant to Section 6.2 hereof. Any additional amounts due shall be divided by the number of full payment periods (if any) remaining in that fiscal year and paid in equal installments on the first day of each payment period remaining in that fiscal year.

(ii) Notwithstanding the foregoing, the Declarant may, at the Declarant's sole option, decide to pay all ordinary operating costs of the Association for a period of time not to exceed two years. If the Declarant so elects, the Association will incur no Common Expenses and thus no Assessments will be collected during such time.

(iii) Neither Annual Assessments nor Special Assessments may be used for construction of Capital Improvements during the Development Period if value is to be given for such improvements.

(iv) Each initial purchaser, other than the Declarant or a Builder, shall pay at settlement an "Initial Capital Payment" equal to \$150 for such purchaser's Lot to provide necessary working capital for the Association. Such funds may be used for any operational costs, certain prepaid items, initial equipment, supplies, organizational costs and other start-up costs, as the Board of Directors may determine. Such funds shall not be used to pay or offset expenses incurred by the Declarant in the development of the Property.

(e) Effect of Failure to Prepare or Adopt Budget. For the first fiscal year of the Association following the first conveyance of any Lot to an Owner other than the Declarant or a Builder, and for all fiscal years thereafter, the Board of Directors shall establish the Annual Assessment against each Lot for Common expenses. The failure or delay of the Board of Directors to prepare or adopt a budget for any fiscal year shall not constitute a waiver or release in any manner of an Owner's obligation to pay the allocable share of the Common Expenses as herein provided, wherever the same shall be determined, and in the absence of any annual budget or adjusted budget, each Owner shall continue to pay Assessments at the rate established for the previous fiscal year until notified of the new payment which is due on the first day of the next

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payment period which begins more than ten days after such new annual or adjusted budget is adopted and the Owner receives such notice.

Section 6.2. Assessments.

(a) Purpose and Rate of Assessment.

(i) Subject to the provisions of Subsections 6.2(a) (ii) and (iii) hereof and Section 6.3 hereof, and after determining the total amount of the estimated funds required for the management and Upkeep of the Property, for services to the Lots and Owners, to maintain adequate reserves, or to meet obligations of the Association established pursuant to this Declaration or other shared maintenance agreements, subdivision document, easements for governmental requirements, the Board of Directors shall establish an Annual Assessment rate for each Lot for Common Expenses, in the same amount against all Lots subject to assessment. Except as follows:

(a.) Any multi-family rental units will pay assessments for the common expenses at a rate of one assessment per every two rental units. During the initial rent up period (limited to a period of six (6) months from first unit occupancy), the owner of the multi-family rental units will pay common expenses at a rate of one assessment per every two units occupied.

(ii) Limited Common Expense Assessment. Limited Common Expenses shall be assessed only against the Lots benefitted in proportion to their relative Common Expense liability inter se or based on usage, as appropriate. Such Limited Common Expenses shall be determined as follows:

(a.) Any service or utilities to Lots which vary based on usage shall be assessed against the Lots served based on usage;

(b.) Any expenses proposed by the Board of Directors or a specific group of Owners as Limited Common Expenses against a specific group of Lots and agreed to by members entitled to cast a majority of the total number of votes with respect to such Lots, shall be assessed against such Lots as such Owners may agree, or on the basis set forth in Subsection 6.2(a) (i) hereof, inter se or

(c.) Any expenses designated in a Supplementary Declaration as Limited Common Expenses shall be paid by the Owners of Lots subject thereto.

(iii) Limitations on Increases.

(a.) Maximum Assessments. For the first fiscal year following recordation of this Declaration, the maximum Annual Assessments against Residential Lots for

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Common Expense, including Limited Common Expense and Recreation Expenses, shall be Eight Hundred Twenty Dollars (\$820.00), plus any additional amount set forth in a Supplementary Declaration with respect to such Lot (if any). For the first fiscal year following recordation of this Declaration, the maximum Annual Assessment against Multi-family units for Common Expense, including Limited Common Expense shall be One Hundred Dollars (\$100.00).

(b.) Automatic Increases in Maximum Assessment

[1.] For residential lots, each fiscal year thereafter the maximum Annual Assessment set forth above or in a Supplementary Declaration shall increase by the greater of;

[a.] ten percent, or

[b.] the increase in the U.S. Department of Labor Consumer Price Index - All Urban Consumers (192-84-100) during the last twelve month period for which figures are available at the date when the Board adopts the budget; or the increase necessary due to other governmental restrictions, casualty and other insurance premiums landfill fees, trash dumping fees or other governmental fees payable by the Association which have increased over amounts payable the previous fiscal year. Wherever in the Association Documents the U.S. Department of Labor Consumer Price Index - All Urban Consumers (1982-84-100) is used, if such index ceases to incorporate a significant number of items now incorporated therein, ceases to reflect the increases in expenses of the Association, or if a substantial change is made in the method of establishing such index, then such other reliable governmental or other nonpartisan index designated by the Board of Directors shall be used.

[2.] For Multi-family units, each fiscal year thereafter the maximum Annual Assessment set for above or in a Supplementary Declaration shall increase by no more than five percent from the actual Annual Assessment applicable during the immediately preceding year.

[3.] The Board of Directors may determine to set Annual Assessments at amounts less than the applicable maximum Annual Assessment for any fiscal year if, after consideration of current expenses and future needs of the Association, it deems it advisable. The actual Assessment set by the Board shall not affect calculation of automatic increases in the maximum Annual Assessments.

(c.) Increases Approved by Member Vote. The Board of Directors may not levy an Annual Assessment or an Additional Assessment which in the aggregate will exceed the applicable maximum Annual Assessment for such fiscal year unless an increase in the maximum Annual Assessment is approved by either: [1.] the members obligated to pay such Assessment by at least a sixty-seven percent vote of each class of such members at a meeting where a sixty percent quorum is present and called for the purpose of approving such increase in the maximum Annual Assessment (if such quorum is not obtained at the meeting

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required by this subsection, a second meeting of the Association may be held within sixty days of the first meeting at which only a thirty percent quorum is required); or [2.] with the written approval of such members entitled to cast more than sixty-seven percent of the total number of votes of each class of such members.

(b) Additional Assessments. The Board of Directors may levy Additional Assessments on the Lots subject to assessments pursuant to 6.2(a) hereof, excluding multi-family rental units; provided, however that such Additional Assessment when added to the Annual Assessment shall not exceed the maximum Annual Assessment per Lot unless approved by the members in accordance with Section 6.2(a) (iii) thereof. The Board of Directors shall give notice of any Additional Assessment to the Owners specifying the amount and reasons therefor, and such Assessment shall, unless otherwise specified in the notice, be payable in full with the next periodic installment which is due more than ten days after the date of such notice or in not more than six equal periodic installments, as the Board may determine. Such Assessment shall be a lien as set forth in Section 12.2 hereof.

(c) Individual Assessments. The Board of Directors shall have the power to assess an Owner's Lot individually, excluding multi-family rental units: (i) for the amount of any costs incurred by the Association pursuant to Subject 7.2(a) hereof in performing Upkeep that the Owner failed to perform as required by the section; (ii) for the amount of any charges imposed on that Owner pursuant to Subjection 12.1(h) hereof; and (iii) for any costs incurred by the Association because of any violation or negligence for which that Owner is responsible under Section 12.1 hereof. Each such Assessment shall be due ten days after notice thereof is given to the Owner unless the notice specifies a later date. Individual Assessments are not included in or subject to the applicable maximum Annual Assessment.

(d) Reserves. The Board of Directors shall establish, build up and maintain reasonable reserves for working capital, contingencies and replacements. Such funds shall be a Common Expense of the Association. Reserves for items serving only certain Lots or the Recreational Facilities shall be accounted for and funded solely by the Owners of the Lots served (as a Limited Common Expense). If the reserves are inadequate to meet actual expenditures for any reason then the Board of Directors shall, in accordance with Section 6.2 (b), levy an Additional Assessment against the Lots.

(e) Surplus and Shortfalls.

(i) Any amount accumulated in excess of the amount required for actual expenses and reserves shall, at the discretion of the Board of Directors: (a.) be placed in reserve accounts; (b.) be placed in a special account to be expensed solely for the general welfare of the Owners; (c.) be credited to the next periodic installments due from Owner under the current fiscal year's budget, until exhausted, (d.) be held to offset future deficits; or (e.) be distributed to each Owner (including the Declarant) in proportion to the percentage (if any) of Assessments paid by such Owner.

(ii) Unless the budget for the succeeding fiscal year is adjusted to amortize the deficit during such fiscal year or a surplus exists from a preceding fiscal year, any net shortage in expenses (including reserves) shall be assessed promptly against the Owners as an Additional Assessment in accordance with Section 6.2(b); provided, however, that if unoccupied Lots owned by the Declarant and Builders are exempt from Assessment in accordance with section 6.3, then no Additional Assessment shall be levied and during the Declarant Control Period the Declarant shall make up any net shortage (expenses but not reserves) in the Association's budgeted income and the Association's ordinary operating expenses as provided in Section 6.3, but the Declarant is not obligated to pay any expenses or reserve contributions that the Association is unable to meet because of non-payment of any Owner's Assessment or unusual or extraordinary expenses not part of the operating budget.

Section 6.3. Assessment Against Lots Owned by the Declarant and Builders; Exemptions.

(a) Special One-time Assessment. The Builder if determined by the Declarant, shall make a one-time payment of One Hundred Fifty Dollars (\$150.00) per dwelling unit permitted under the Development Plan with respect to each Lot. The foregoing sum shall be due upon conveyance of the Lot by the Declarant.

For so long as the Builders pay the one-time Assessment for the unoccupied Lots, the Builder or Declarant, as applicable, must maintain such Lot. In addition, during the Declarant Control Period, the Declarant and Builder must fund all operating budget deficits, as determined by the Board of Directors. The Declarant's and Builder's obligation under this Section does not include any expenses or reserve contributions that the Association is unable to meet because of nonpayment of any Owner's Assessment or because of unusual or extraordinary expenses not part of the operating budget. The obligations of the Declarant and Builders under this section shall be a lien against the portion of the Property owned by the Declarant or such Builder, as appropriate. After such Lots or dwellings are initially occupied or conveyed to Owners other than the Declarant or a Builder, such Lots shall be assessed at the annual rate for similar Lots or dwellings not owned by the Declarant or a Builder.

(b) Exemptions. The Common Area and any properties dedicated to a public authority or exempt from taxation by a public authority shall be exempt from Assessment and the lien created hereby. Unoccupied Lots (Lots containing dwellings which have never been occupied) owned by the Declarant or a Builder shall be exempt from further Annual or Additional Assessments for Common Expenses for so long as the Declarant or Builder pays the one-time Assessment in accordance with Section 6.3. (a). Lots used for model home purposes shall be considered occupied and shall be subject to full Assessment.

Section 6.4. Liability for Common Expenses.

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(a) Declarant and Owner Liability. Each Owner of a Lot shall pay to the Association all Assessments and other charges assessed by the Board of Directors pursuant to the provisions of this Declaration. Each Owner shall be personally liable for all Assessments against such Owner's Lot. No Owner shall be exempted from liability for Assessment by reason of waiver of the use or enjoyment of any of the Common Area or by abandonment of the Lot or by temporary unavailability of the Common Area. No Owner shall be liable for the payment of any part of the Common Expenses assessed against the Lot subsequent to the date of recordation of a conveyance by such Owner of such Lot. Prior to or at the time of any such conveyance, all liens, unpaid charges and Assessments shall be paid in full and discharged. The purchaser of a Lot shall be jointly and severally liable with the selling Owner for all unpaid Assessments against the latter for the proportionate share of the Common Expenses up to the time of such recordation not to exceed the greater of: (i) one-sixth of the Annual Assessment for Common Expenses, including Limited Common Expenses, or (ii) the amount shown on a Statement of Common Expenses, without prejudice to the purchaser's right to recover from the selling Owner amounts paid by the purchaser therefor. Any such purchaser may rely on a Statement of Common Expenses obtained pursuant to Section 6.6.

(b) Mortgagee Liability. Each holder of a Mortgage who comes into possession of a Lot by virtue of foreclosures or by deed or assignment in lieu of foreclosure, or any purchaser at a foreclosure sale, shall take the Lot free of any claims for unpaid Assessments or charges against such Lot which accrue prior to the time such holder or purchaser comes into possession thereof, except as provided below and for claims for a pro rata share of such Assessments or charges resulting from a pro rata reallocation of such Assessments or charges to all Lots, including the mortgaged lot assessed after the holder of a Mortgage or purchaser takes possession. The lien created by Section 12.2 hereof shall cease to exist with respect to Assessments and charges levied prior to the time title is transferred by foreclosure or by deed or assignment in lieu thereof, provided, however, that if the proceeds of a foreclosure exceed the total amount due to the holder of the Mortgage, the excess shall first be paid to the Association and applied to the satisfaction of the Association's lien.

Section 6.5. Collection of Annual Assessments. Any Assessment, or installment thereof, not paid within ten days after the due date shall be delinquent and shall accrue a late charge in the amount of Ten Dollars, or such other amount as may be established from time to time by the Board of Directors. The Board of Directors, or the managing agent at the request of the Board, shall take prompt action to collect any Assessments due from any Owner which remain unpaid for more thirty days after the due date for payment thereof.

Section 6.6 Statement of Common Expenses. The Board of Directors or managing agent shall provide any Owner, contract purchaser or Mortgagee, within fourteen days after a written request therefor, with a written statement of all unpaid Assessments due with respect to a specific Lot (or a statement that the amount of unpaid Assessments is zero) as part of the "Association Disclosure Packet" substantially in the form attached as Exhibit B to the Bylaws or otherwise. No contract purchaser, Mortgagee or purchaser from a Mortgagee requesting such a

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statement shall be liable for, nor shall the Lot conveyed to such Person relying on such statement be subject to a lien for, any unpaid Assessments due prior to the date of such statement in excess of the amount set forth on such statement; provided, however, that this section shall not be interpreted to release any Person from personal liability for such Assessments levied while such Person owned the Lot. The Board of Directors may impose a reasonable charge for the preparation of such statement to cover the cost of preparation.

Section 6.7 Assessment from Lots Subject to Subassociations. With respect to Annual or Additional Assessments provided for herein which are payable by Owners of Lots which are also members of a Subassociation, the Board of Directors may elect by resolution to collect Assessments directly from the Subassociation which also governs such Lots. In such event, payment of such Assessments shall be an obligation of such Subassociation, but each Owner shall remain personally liable for the Assessment against such Owner's Lot and each such Lot shall remain subject to a lien for Assessments. If the Board elects to collect Assessments from such Subassociation, then all notices regarding Assessments against such Lots shall be sent to such Subassociation, but notices of any intention to lien an Owner's Lot shall also be sent to the Owner of the Lot. This Section shall not limit or waive any of the Association's remedies for non-payment of Assessments. Any Owner of a Lot subject to the jurisdiction of a Subassociation which did not pay the Assessment levied against such Subassociation hereunder, shall have the right to pay the portion of such Assessment attributable to such Lot directly to the Association, and such Lot shall not be subject to further Assessment or lien by Association of the Subassociation with respect to such Association.

## ARTICLE 7

### OPERATION OF THE PROPERTY

#### Section 7.1. Upkeep by Association.

(a) The Association shall be responsible for the management and Upkeep of all of the Common Area. The Association shall not have any responsibility for the Upkeep of any Lot except for those responsibilities and duties specifically enumerated within the Association Documents, the subdivision documents or separate easements. If the Board of Directors determines that certain Upkeep was necessitated by the negligence, misuse or misconduct of an Owner or for which an Owner is responsible pursuant to Section 12.1 hereof, the cost of such Upkeep shall be assessed against such Owner's Lot pursuant to Subsections 6.2 and 12.1(h) hereof. The Board of Directors shall establish the standard for Upkeep of the Common Area in its sole discretion.

(b) Entrance Features and Right-of-Way. The Association shall also provide for Upkeep of the road frontage (including public right-of-way to the extent not maintained by the appropriate governmental authorities and to the extent permitted by the appropriate governmental authorities) of all public roads within the Property, such Upkeep to include, without limitation, entrance features, sidewalks, trails, community street, traffic and directional signage, street lights,

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street lights, landscaping and associated lighting and irrigation systems but not including street pavement area.

(c) Other Services. To the extent determined to be reasonably necessary or desirable by the Board of Directors, the Association may provide trash collection or cable television or similar services to the Owners as a Common Expense or a Limited Common Expense, as appropriate.

Section 7.2 Upkeep of Lots. Each Owner shall keep such Owner's Lot and all improvements located on the Lot (including lead sidewalks, driveway aprons and utility laterals servicing such Lot, whether or not located on such Lot) in good order, condition and repair and in a clean and sanitary condition, including without limitation all necessary grounds maintenance except within the easement areas maintained by the Association and except as may be otherwise provided in a Supplementary Declaration. Each Owner shall perform this responsibility in such manner as shall not unreasonably disturb or interfere with the other Owners. If any Owner shall fail to keep such Owner's Lot in as good repair and condition, as when acquired (normal wear and tear excepted) and in a neat and orderly condition, consistent with such Rules and Regulations as the Board of Directors may promulgate, then the Board or the Covenants Committee may, pursuant to resolution, give notice to that Owner of the condition complained of, specifying generally the action to be taken to rectify that condition. If the Owner fails to take actions specified or otherwise to rectify the condition within thirty days after the date the notice is given, or such other period as may be specified in the notice, if the circumstances warrant a different period, the Board of Directors shall have the right, pursuant to Section 3.3 and Subsection 12.1 hereof and any resolutions adopted by the Board of Directors, to rectify that condition by taking such action (or by causing such action to be taken) as was specified in the notice. The costs incurred in rectifying the condition shall be assessed against such Owner's Lot in accordance with Subsection 6.2(c) and Section 12.1 hereof. The Owner shall reimburse the Association within thirty days after receipt of a statement for such expenses from the Board.

Section 7.3 Additions, Alterations or Improvements by the Board of Directors. Whenever in the judgement of the Board of Directors the Common Area shall require capital additions, alterations or improvements (other than for Upkeep) costing in excess of twenty-five percent in the aggregate of the total Annual Assessment for Common Expenses for that fiscal year during any period of twelve consecutive months, the making of such addition, alterations or improvements requires a Majority Vote of the members, and the Board of Directors shall assess all Owners benefited for the cost thereof as a Common Expense or a Limited Common Expense depending on the nature of the improvement. Any capital additions, alterations or improvements (other than for Upkeep) costing in the aggregate twenty-five percent or less of the total Annual Assessment for Common Expenses for that fiscal year during any period of twelve consecutive months may be made by the Board of Directors without approval of the members and the cost thereof shall constitute a Common Expense or a Limited Common Expense depending on the



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nature of the improvements. Any assessments resulting from expenditures authorized under this section must also comply with Paragraph 6.2(a) (iii) hereof which imposes limitations on increases in Assessments above a specified maximum. If member approval is required to increase the applicable maximum Annual Assessment, such approval shall be obtained simultaneously with the vote required by this section.

ARTICLE 8

RESTRICTIONS ON USE OF LOTS AND COMMON  
AREA: RULES AND REGULATIONS

Section 8.1. Permitted Uses. Except as otherwise provided in the Association Documents, no Lot shall be used for non-residential purposes except for Association offices (if any) and recreational uses associated with the dwelling.

Notwithstanding the foregoing, nothing in the Association Documents shall be construed to prohibit the Declarant or its designees from using any Lot owned by the Declarant (or any other Lot with the permission of the Owner thereof) or any portion of the Common Area for promotional, marketing, display or customer service purposes (such as a Visitor's center) or for the settlement of sales of Lots. Further, the Declarant specifically reserves the right to operate a construction office or a rental, brokerage and management office at any time on Lots owned or leased by the Declarant (or any other Lot with the permission of the Owner thereof) and on any portion of the Common Area, to the extent permitted by law. The Declarant may assign its rights under this subsection to or share such rights with one or more other Persons, exclusively, simultaneously or consecutively with respect to the Common Area and Lots owned or leased by the Declarant or such Persons.

Section 8.2 Restrictions on Use.

(a) No Waste. Nothing shall be done or kept on the Property which will increase the rate of insurance for the Common Area or any part thereof applicable for permitted uses without the prior written consent of the Board of Directors; including without limitation any activities which are unsafe or hazardous with respect to any person or property. No Person shall permit anything to be done or kept on the Property which will result in the cancellation of any insurance on the Common Area or any part thereof or which would be in violation of any law, regulation or administrative ruling. No waste will be committed on the Property.

(b) Compliance with Laws. No improper, offensive, or unlawful use shall be made of the Property or any part thereof, and all valid laws, zoning ordinances and regulations of all governmental agencies having jurisdiction thereof shall be observed. All laws, orders, rules, regulations or requirements of any governmental agency having jurisdiction thereof relating to any portion of the Property shall be complied with, by and at the sole expense of the Owner, the Association or the Declarant, whichever shall have the obligation for the Upkeep of such portion

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of the Property, and, if the Association, then the cost of such compliance shall be a Common Expense or Limited Common Expense, as appropriate.

(c) Harmful Discharges. There shall be no emissions of dust, sweepings, dirt, cinders, odors, gases or other substances into the atmosphere (other than normal residential chimney or outdoor grill emissions), no production, storage or discharge of hazardous wastes on the Property or discharges of liquid, solid wastes or other harmful matter into the ground or any body of water, if such emission, production, storage or discharge may adversely affect the use or intended use of any portion of the Property or may adversely affect the health safety or comfort of the occupants of the Lots. No waste nor any substance or materials of any kind shall be discharged into any public sewer serving the Property or any part thereof in violation of any regulation of any public body having jurisdiction over such public sewer.

(d) Noise. No Person shall cause any unreasonably loud noise (except for security devices) anywhere on the Property, nor shall any Person permit or engage in any activity, practice or behavior for the purpose of causing annoyance, discomfort or disturbance to any Person lawfully present on any portion of the Property.

(e) Obstructions. No Person shall obstruct any of the Common Area or otherwise impede the rightful access of any other Person on any portion of the Property upon which such person has the right to be. No Person shall place or cause or permit anything to be placed on or in any portion of the Common Area without the approval of the Board of Directors. Nothing shall be altered or constricted in or removed from the Common Area except with the prior written approval of the Board of Directors.

(f) Association Property. The Common Area shall be used only for the furnishing of the services and facilities for which the same is reasonably suited and which are incident to the use and occupancy of the Lots. The improvements located on the Common Area, if any, shall be used only for their intended purposes. Except as otherwise expressly provided in the Association Documents, no Owner shall make any private, exclusive or proprietary use of any of the Common Area without the prior written approval of the Board of Directors, and then only on a temporary basis. No Person shall engage or direct any employee of the Association on any private business of the Owner or otherwise direct, supervise or in any manner attempt to assert control over such employee during the hours such employee is employed by the Association.

(g) Signs. Except for such signs as may be posted by the Declarant or a Builder (as permitted by the Declarant) for promotional or marketing purposes or by the Association, no signs of any character shall be erected, posted or displayed in a location that is visible from the Common Area or any other Lot that does not comply with the Design Standards without the written approval of the Covenants Committee.

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(h) Trash. Trash storage and collection shall be in accordance with the Rules and Regulations. Except in connection with construction activities, no burning of any trash and no accumulation or storage of litter, refuse, bulk materials, building materials or trash of any other kind shall be permitted on any Lot. Trash containers shall not be permitted to remain in public view from the Common Area or another Lot except on days of trash collection. The Board of Directors may determine to negotiate a trash service contract on behalf of some or all of the Owners, the cost of which shall be a Common Expense or a Limited Common Expense, as appropriate. No incinerator shall be kept or maintained upon any lot without the written approval of the Declarant during the Development Period or the Board of Directors thereafter.

(i) Landscaping; Utility Lines. No tree, hedge or other landscape feature shall be planted or maintained in a location which obstructs sight-lines for vehicular traffic on public or private streets. Pavement, plantings and other landscape materials shall not be placed or permitted to remain upon any Lot: (i) if such materials may damage or interfere with any easement for the installation or maintenance of utilities; (ii) in violation of the requirements of such easements; (iii) unless in conformity with public utility standards; or (iv) if such materials may unreasonably change, obstruct or retard direction or flow of any drainage channels. Otherwise, the installation of such materials within utility easements shall be permitted. Except for hoses and temporary lines and the like which are reasonably necessary in connection with construction activities or normal landscape maintenance, no water pipe, sewer pipe, gas pipe, drainage pipe, television or telephone cable, electric line or other similar transmission line shall be installed or maintained upon any Lot above the surface of the ground without the written approval of the Declarant during the Development Period or the Board of Directors thereafter.

(j) Temporary Structures. No structure of a temporary character, and no trailer, tent, shack, pen, kennel, run, shed or other temporary accessory building shall be erected, used or maintained on any Lot except in connection with construction activities or as approved in writing by the Declarant during the Development Period or the Covenants Committee thereafter.

(k) Trees and Lawns. No live trees with a diameter in excess of four inches, measured twelve inches above ground, nor trees in excess of two inches in diameter, similarly measured, which are generally known as flowering trees (such as dogwood or redbud) or as broad leaf evergreens (such as holly, laurel, or rhododendron), no live vegetation on slopes of greater than twenty percent gradient or marked "no cut" areas on approved site plans may be cut without prior approval of the Covenants Committee unless necessary to construct improvements based on plans approved in writing by the Declarant or the Covenants Committee. The Association shall set rules for cutting of trees to allow for selective clearing or cutting.

(l) Antenna. No outside antenna shall be maintained upon the Property unless such antenna shall be so located that it is not visible from Neighboring Property and the consent of the Board of Directors is obtained. Outside antenna, satellite antenna dishes greater than 24 inches in diameter, or amateur radio equipment generally will not be allowed upon the Property; provided, however, that the Covenants Committee may approve such antenna in the appropriate

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circumstances; and provided, further, that the Covenants Committee may establish additional guidelines for antennas as technology changes. Notwithstanding the foregoing, the Board of Directors may install and maintain an antenna, satellite dish or similar equipment on the Common Area to serve the Property.

(m) Fence. Except for any fence installed by the Declarant or a Builder (if permitted by the Declarant) or by the Association, no fence shall be installed except with the written approval of the Covenants Committee. No chain link fence shall be permitted on the Property; provided, however, that the Declarant or its designees may erect a chain link fence for the temporary storage of building materials, for the purpose of building sites or storm water management ponds or for other construction or safety purposes.

(n) Vehicles. Except in connection with construction activities, no trucks or vans upon which commercial signage or equipment or materials is visible, or trailers, campers, recreational vehicles, boats or other large vehicles, including grounds maintenance equipment, may be parked on any portion of the Common Area or any portion of a Lot visible from the Common Area or another Lot or on any public right-of-way within or adjacent to the Property, unless expressly permitted by the Board of Directors and only in such parking areas or for such time periods (if any) as may be designated for such purpose. Parking of all such vehicles and related equipment, other than on a temporary and non-recurring basis, shall be in garages or screened enclosures approved by the Covenants (if any). No junk or derelict vehicle or other vehicle on which current registration plates and current county and state inspection permits are not displayed shall be kept upon any portion of the Common Area or any portion of a Lot visible from the Common Area or another Lot or any public right-of-way within or adjacent to the Property. Vehicle repairs are not permitted, except in accordance with the Rules and Regulations; provided, however, that noncommercial repair of vehicles is permitted within enclosed structures. All motor vehicles, including without limitation, trail bikes, motorcycles, dune buggies and snowmobiles, shall be driven only upon paved streets and parking lots. No motor vehicles shall be driven on paths and walkways or unpaved portions of the Common Area, except such vehicles as authorized by the Board of Directors for the Upkeep of the Common Area.

(o) Timeshare. No Lot shall be subjected to or used for any timesharing, cooperative, licensing or other arrangement that would entail weekly, monthly or other type of revolving or periodic occupancy by multiple owners, cooperators, licensees or timesharing participants.

(p) Animals. The maintenance, keeping, boarding or raising of animals, livestock, poultry or reptiles or any kind, regardless of number, is prohibited on any Lot or upon the Common Area, except that the keeping of guide animals and a reasonable number of orderly domestic pets (e.g., dogs, cats or caged birds) is permitted, subject to the Rules and Regulations adopted by the Board of Directors; provided, however, that such pets are not kept or maintained for commercial purposes or for breeding; and provided, further, that any such pet causing or creating a nuisance or unreasonable disturbance or noise may be permanently removed from the

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Property upon ten days written notice from the Board of Directors. Pets shall not be permitted upon the Common Area unless accompanied by someone who can control the pet and unless carried or leashed. Pet droppings shall be cleaned up by the Owner responsible for the pet being on the Property. Any Owner who keeps or maintains any pet upon any portion of the Property shall be deemed to have indemnified and agreed to hold the Association, each Owner and the Declarant free and harmless from any loss, claim or liability of any kind or character whatever arising by reason of keeping or maintaining such pet within the Property. All pets shall be registered and inoculated as required by law. The appropriate governmental authorities shall have an easement across the Property to enforce local animal control laws and ordinances.

(q) Lighting. No exterior lighting shall be directed outside the boundaries of a Lot without the written approval of the Covenants Committee.

(r) Mailboxes and Newspaper Tubes. Only mailboxes and newspaper tubes meeting the Design Standards or approved in writing by the Covenants Committee are permitted.

(s) Clothes Drying Equipment. No exterior clotheslines or other clothes drying apparatus shall be permitted on any Lot, unless approved in writing by the Covenants Committee. It is initially contemplated that no exterior clotheslines or other exterior clothes drying apparatus will be permitted.

(t) Pools. No swimming pool shall be erected or maintained on any Lot unless approved in writing by the Covenants Committee and unless screened from view and enclosed by a fence.

(u) Professional Offices. No Lot shall be used for any business, commercial, manufacturing, mercantile, storing, vending, or other non-residential purpose; provided, however, that an Owner may maintain an office or home business in the dwelling constructed on such Owner's Lot if: (i) such office or business generates no significant number of visits (as determined by the Board of Directors) by clients, customers or other persons related to the business; (ii) no equipment or other items related to the business are stored, parked or otherwise kept on such Owner's Lot or the Property outside of an approved enclosure; and (iii) such Owner has obtained approvals for such use as may be required by the appropriate local governmental agency. As a condition to such use, the Board may require the Owner to pay any increase in the rate of insurance or other costs of the Association which may result from such use.

(v) Construction Activities. This section shall not be construed as forbidding any work involved in the construction or Upkeep on any portion of the Property so long as such work is undertaken and carried out: (i) with the minimum practical disturbance to Persons occupying other portions of the Property; (ii) in such a way as does not violate the rights of any Person under other provisions of this Declaration; and (iii) in accordance with all applicable restrictions in the Rules and Regulations, the resolutions of the Board of Directors and the other provisions of this Declaration. The Board of Directors may approve temporary structures for

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construction purposes which may otherwise be in violation of the Association Documents or the Rules and Regulations.

Section 8.3. Rules and Regulations. The Board of Directors shall have the power to adopt, amend and repeal Rules and Regulations restricting and regulating the use and enjoyment of the Property or of any portion thereof and the actions of the Owners and occupants which affect the Property, which may supplement, but may not be consistent with the provisions of the Association Documents. For the purposes of interpretation and enforcement of the Rules and Regulations, the term Property shall be deemed to include the land immediately adjacent to the Property within the public rights-of-ways or otherwise to the extent an Owner or occupant's actions affect the appearance of the Property. Rules and Regulations governing the actions of Owners or occupants on land adjacent to the Property shall be consistent with and reasonable necessary to the maintenance of a uniform quality of appearance for the Property. Copies of the Rules and Regulations shall be furnished by the Board of Directors to each Owner. Changes to the Rules and Regulations shall be published prior to the time when the same shall become effective and copies thereof shall be provided to each Owner. The Rules and Regulations shall not unreasonably interfere with the use or enjoyment of the Lots or Common Area. Also, the Board of Directors may issue temporary exceptions to any prohibitions expressed or implied by this Article, for good cause shown.

Section 8.4. Exclusion for the Declarant and Designees of the Declarant. Notwithstanding any other provision of the Association Documents, neither the restrictions in this Article nor the Rules and Regulations of the Association shall apply to any otherwise lawful acts or omissions of the Declarant or of any Builder during the Development Period. This exception for Builders shall be subject to such rules as may be established by the Declarant for safety or to maintain the appearance of the Property.

Section 8.5. Leasing and Resale of Lots.

(a) Leasing. No dwelling or any portion thereof shall be used or occupied for revolving use, transient or hotel purposes or in any event leased for an initial period of less than six months. No portion of any dwelling (other than the entire dwelling) shall be leased for any period; provided, however, that a reasonable number of roommates is permitted. No Owner shall lease a Lot other than on a written form of lease: (i) requiring the lessee to comply with the Association Documents; and (ii) providing that failure to comply constitutes a default under the lease. The Board of Directors may suggest or require a standard provision for use by Owners. The Board may require each Owner to forward a conformed copy of any such lease subsection, except the restriction against use or occupancy for hotel or transient or revolving use purposes, shall not apply to Mortgagee in possession of a Lot as a result of foreclosure, judicial sale or a proceeding in lieu of foreclosure.

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(b) Resale.

(1) Reference to Declaration. The deed or instrument transferring title to any Lot shall contain a provision incorporating by reference provisions of this Declaration, as well as any applicable Supplementary Declaration. Notwithstanding failure to include a reference to this Declaration in a deed or instrument transferring title to a Lot, the covenants, restrictions, easements, conditions, charges and liens set forth herein shall encumber the Lot as though reference thereof was set forth in such deed or instrument.

(2) Notification. The contract seller of a Lot shall notify the Board of Directors of the contract purchaser and the scheduled date and place conveyance will be accomplished.

(3) Association Disclosure Packet. The Board of Directors shall, upon written request from a contract seller of a Lot, and upon payment of the applicable fee, furnish an association Disclosure Packet as required by applicable Virginia law and a Statement of Common Expenses in accordance with Section 6.6 hereof.

ARTICLE 9

ARCHITECTURAL REVIEW

Section 9.1. Covenants Committee.

(a) Purpose. The Board of Directors shall establish a Covenants Committee, consisting of at least three persons appointed by the Board, each to serve for a term from one to three years as may be determined by the Board of Directors, in order to assure that the Property shall always be maintained in a manner: (i) providing for visual harmony and soundness of repair; (ii) avoiding activities deleterious to the aesthetic or property values of the Property; and (iii) promoting the general welfare and safety of the Owners, such Owners' tenants and such Owners' (or tenants') households, guests, employees, agents and invitees. If the Board of Directors fail to appoint a Covenants Committee, then the Board of Directors shall perform the duties of the Covenants Committee.

(b) Powers.

(i) The Covenants Committee shall regulate the external design, signage, appearance, use and maintenance of the Property (including establishing minimum floor area specifications and building set backs); provided, however, that neither the Covenants Committee nor the Board of Directors shall have the power to regulate the activities of the Declarant of the Common Area or any Lot owned by the Declarant or construction on any Lot owned by a Builder which has been approved by the Declarant.

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(d) Time for Response: Variances. The Covenants Committee shall act on all matters properly before it within forty-five days after receipt of a complete application in the form prescribed by the Covenants Committee. Failure to do so within the stipulated time shall constitute an automatic referral to the Board of Directors. Except when a request is being handled by the Covenants Committee, the Board of Directors shall be obligated to answer any properly submitted written application for approval of a proposed structural addition, alteration or improvement within fifteen days after the first Board of Directors meeting held following such referral to the Board, and failure to do so within the stipulated time shall constitute a consent by the Board of Directors to the proposed structural addition, alteration or improvement; provided, however, that neither the Board of Directors nor Covenants Committee has the right or power, either by action or failure to act, to waive enforcement or grant variances from the written Design Standards without a specific finding stating the variance and the reasons therefor in a written instrument which shall be part of the records of the Association. Upon such written approval of any specific variance or exception from the requirements of the Design Standards, all development conforming to such variance or exception shall be deemed to comply.

Section 9.2. Compensation of the Covenants Committee. One or more members of the Covenants Committee, other than an Owner or an occupant of the Property, may be compensated by the Association for their service on the Covenants Committee as may be determined by the Board of Directors.

Section 9.3. Initial Construction.

(a) Authority. The Declarant shall have the right to review and approve or disapprove the plans for the initial construction of any structure or improvement to be located on the Property, including without limitation, the site development plan, architectural design, architectural materials, landscaping plans, minimum square footage, non-structural improvements and general appearance, in order to ensure the quality and compatibility of style of all the improvements to be located on the Property. The Declarant may establish the Design Standards proposed by the Covenants Committee shall be submitted to the Declarant for review and approval. Such Design Standards are hereby incorporated herein by this reference and shall be enforceable as if set forth herein in full. The Declarant may establish a committee or board appointed by the Declarant to review initial construction or the Declarant may delegate such responsibility to the Covenants Committee at the Declarant's sole discretion. The Declarant's right to review the initial construction shall cease to exist when the Development Period ends. If initial construction on the Property occurs thereafter, such construction will be reviewed by the Covenants Committee.

(b) Time for Response: Variances. The Declarant shall act on all matters within sixty days after receipt of a complete application in the form prescribed by the Declarant; failure to do so within the stipulated time shall constitute an approval by the Declarant or the proposed structure, addition, alteration or improvement; provided, however, that the Declarant may only grant exceptions or variances from the written Design Standards (whether by action or



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(ii) The Covenants Committee may from time to time establish requirements regarding the form and content of plans and specifications to be submitted for approval. The Covenants Committee shall have the power to impose reasonable application fees as well as the costs of reports, analyses or consultations required in connection with improvements or changes proposed by an Owner. Such fees shall be assessed against the Lots owned by the Owner making application; provided, however, that before incurring such costs, the Committee shall provide an estimate to the applicant Owner and the Owner shall have the opportunity to withdraw such Owner's application without incurring such costs.

(iii) The Covenants Committee shall have the power pursuant to Subsection 12.1(h) hereof (upon petition of any member or upon its own motion) to impose reasonable charges upon, and issue a cease and desist request to an Owner, such Owner's employees, agents and invitees whose actions are inconsistent with the provisions of the Association Documents or the Rules and Regulations.

(iv) Subject to the review of the Board of Directors, the Covenants Committee shall from time to time provide interpretations of the Association Documents pursuant to the intents, provisions and qualifications thereof when requested to do so by an Owner or the Board of Directors. The Committee may publish and record such interpretations in order to establish precedents for application of the Association Documents or the Design Standards or other matters relative to architectural control and protection of the aesthetic or property values of the Property.

(v) The Covenants Committee shall propose the Design Standards for approval by the Board of Directors. Such Design Standards as approved by the Board of Directors are hereby incorporated by this reference and shall be enforceable as if set forth herein in full.

(iv) A Majority Vote of the Covenants Committee shall be required in order to take any action. The Covenants Committee shall keep written records of all its actions. Any action, ruling or decision of the Covenants Committee may be appealed to the Board of Directors by any party who appeared at a hearing with respect to such action, ruling or decision or who submitted a written protest prior to the action, decision or ruling. The Covenants Committee and the Board of Directors shall have no authority or regulate construction by the Declarant or construction approved by the Declarant.

(c) Authority. The Covenants Committee shall have such additional duties, powers and authority as the Board of Directors may from time to time provide by resolutions. The Board of Directors may relieve the Covenants Committee of any of its duties, powers and authority either generally or on a case-by-case basis. The Covenants Committee shall carry out its duties and exercise its powers and authority in accordance with Subsections 12.1. (h) and (i) hereof and in the manner provided for in the Rules and Regulations adopted by the Board of Directors or by resolution of the Board of Directors.

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failure to act) in writing stating the exception or variance and the reasons therefor. Upon such written approval of any specific variance or exception from the requirements of the Design Standards, all development conforming to such variance or exception shall be deemed to comply.

Section 9.4. Additions, Alterations or Improvements by the Owners.

(a) Approval.

(i) No person shall make any addition, alteration, improvement or change of grade in or to any Lot (other than for normal Upkeep or natural landscaping and not including areas within a building visible from the exterior only because of the transparency of glass doors, walls or windows), without the prior written consent of the Covenants Committee. No Person shall paint, affix a sign not permitted by the Rules and Regulations to or alter the exterior of any improvement, including the doors and windows, without the prior written consent of the Covenants Committee. Approval by the Board of Directors or the Covenants Committee shall not relieve an Owner from any obligation to obtain required governmental permits. The Owner shall deliver all approvals and permits required by law to the Covenants Committee or Board of Directors, as appropriate, prior to the commencement of the construction requiring such approval or permit. If any application to any governmental authority for a permit to make any such structural addition, alteration or improvement to any Lot or improvement located on any Lot required signature by the Association, and provided consent has been given by the Board of Directors or the covenants Committee, as appropriate, then the application shall be signed on behalf of the Association by an Officer or Agent only, without incurring any liability on the part of the Officer, Agent, Board of Directors, the Association, the Covenants Committee or any of them to any contractor, subcontractor or materialman on account of such addition, alteration or improvement, or to any Person having a claim for personal injury or property damage arising therefrom. Any addition, alteration, or improvement upon any Lot in violation of the Association documents shall be removed or altered to conform to the Association Documents (including the Design Standards) within thirty days after notice of the violation.

(ii) The provisions of this section shall not apply to Lots owned by the Declarant or to improvements on any Lot if such improvements have been approved by the Declarant. The Declarant or a Builder, if approved by the Declarant, shall have the right to construct improvements or make alterations without the consent of the Board of Directors or the Covenants Committee and an authorized Officer shall sign any such application required.

(iii) The provisions of this section shall not apply to a Mortgagee (in possession of a Lot as a result of foreclosure, judicial sale or proceeding in lieu of foreclosure) affixing a sign or taking any other actions that may be necessary to sell or lease all or any portion of the Lot, if such actions are in accordance with applicable zoning and not detrimental to the value of the Property.

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(b) Limitations.

(i) Any Person obtaining approval of the covenants committee shall commence construction to alteration in accordance with the approved plans and specifications within six months after the date of approval and shall substantially complete any construction or alteration within eighteen months after the date of approval, or within such other period as may be specified in the approval. Notwithstanding the foregoing, the approval may provide for a different period during which to commence or complete construction. If any such Person does not commence work within six months after approval, or such other time period determined by the Committee, then the approval shall lapse.

(ii) Any Person obtaining the approval of the Covenants Committee shall not deviate materially from the approved plans and specifications without the prior written consent of the Committee. Such Person shall notify the Committee when the alterations or improvements are complete. Approval of any particular plans and specifications or design does not waive the right of the Committee to disapprove such plans and specifications, or any elements or features thereof, if such plans and specifications are subsequently submitted for use in any other instance or by any other Person.

(c) Certificate of Compliance. Upon the completion of any construction or alteration in accordance with plans and specifications approved by the Covenants Committee, the Committee shall, at the request of the Owner thereof, issue a Certificate of Compliance which shall be prima facie evidence that such construction or alteration referenced in such certificate has been approved by the Committee and constructed or installed in full compliance with the provisions of this Article and with such other provisions and requirements of the Association Documents as may be applicable. The certificate shall not be used and may not be relied upon for any other purpose, and shall not constitute a representation either as to the accuracy or sufficiency of the plans and specifications reviewed by the Covenants Committee or the quality or soundness of the construction, alterations or improvements. The Covenants Committee may impose a reasonable charge to cover the costs of preparation and inspection.

(d) Initial Construction. Notwithstanding anything to the contrary in the Association Documents, including Articles 8 and 9, the Declarant has the right to review all initial construction pursuant to Section 9.3, and with respect to such initial construction, all references to the Covenants Committee shall be deemed to mean the Declarant.

Section 9.5. Restriction on Further Subdivision. No Lot shall be further subdivided or separated into smaller Lots by any Owner except with the approval of the Declarant, during the Development Period, or the Board of Directors thereafter. Any open space parcel created by the subdivision shall be conveyed by the subdivider to the Association or shall be otherwise conveyed as approved by the Declarant or the Board. This provision shall not require the approval of the Declarant or the Board of Directors to deeds of correction, deeds to resolve boundary line disputes or similar corrective instruments. No portion of any such Lot (other than the entire

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unsubdivided Lot), nor any easement or other interest therein, except easements for utilities, stormwater drainage and management, street dedications and other easements or dedications to any utility or public authority or the Declarant, shall be conveyed or transferred by an Owner without the approval of the Declarant, during the Development Period, or the Board of Directors thereafter.

#### ARTICLE 10

#### INSURANCE

Section 10.1 Physical Damage and Liability Insurance. The Board of Directors, or its duly authorized agent, shall have the authority to and shall obtain insurance for all insurable improvements on the Common Area to the extent available at a reasonable cost. This insurance shall cover loss or damage by fire or other hazards, including extended coverage, vandalism and malicious mischief, and shall be in amounts sufficient to cover the full insurable replacement cost of any repair or reconstruction in the event of damage or destruction from any such hazard. The Board of Directors shall obtain a public liability policy applicable to the Common Area. The public liability policy shall have a combined single limit of at least one million dollars. The Board may also purchase additional umbrella coverage. If reasonably available, the Board of Directors shall obtain directors' and officers' liability insurance. Premiums for all Association insurance shall be a Common Expense. The payment of the deductible for any claim shall be a Common expense.

Such insurance shall be governed by the following provisions:

- (a) Exclusive authority to adjust losses under policies obtained by the Association shall be vested in the Board of Directors; provided, however, that no Mortgagee having an interest in such losses may be prohibited from participating in the settlement negotiations, if any, related thereto.
- (b) In no event shall the insurance coverage obtained and maintained by the Board of Directors hereunder be brought into contribution with insurance purchased by individual Owners, occupants of Lots or their Mortgagees, and the insurance carried by the Association shall be primary.
- (c) All casualty insurance policies shall have an inflation guard endorsements and an agreed amount endorsement if reasonable available.
- (d) The Board of Directors shall be required to make every reasonable effort to secure insurance policies that will provide for the following:
  - (i) a waiver of subrogation ("right of recovery") by the insurer as to any claims against the Board of Directors, any Owner, any Owner's tenant or such Owner's co-

tenant, household, company, guests, employees, agents and invitees;

(ii) a waiver by the insurer of its rights to repair and reconstruct instead of paying cash;

(iii) that no policy may be cancelled, invalidated or suspended due to the conduct of any Owner, or such Owner's tenant or such Owner's (or tenant's) household, guests, employees, agents and invitees, or of the managing agent ("no control clause") without a prior demand in writing that the Board or the managing agent cure the defect and neither shall have so cured such defect within thirty days after such demand;

(iv) that no policy may be cancelled (including for failure to pay the premium) or substantially modified without at least ten days prior written notice to the Board of Directors;

(v) the Declarant, so long as the Declarant shall own any Lot, shall be protected by all such policies as an Owner;

(vi) the Owners shall be treated as insured and the policies shall contain a "cross-liability" clause and a "severability on interest" clause; and

(vii) reasonable deductibles.

Section 10.2. Fidelity Insurance. In addition to the other insurance required by this Article, the Board shall obtain adequate fidelity insurance coverage to protect against dishonest acts on the part of Officers, directors, trustees and employees of the Association and all others who handle, or are responsible for handling, funds of the Association, including the managing agent. Such fidelity bonds shall (i) name the Association as an obligee; (ii) be written in an amount not less than one-fourth of the total annual assessments for the year or the amount required by any Secondary Mortgage Agency, whichever is greatest; and (iii) contain waivers of any defense based upon the exclusion of persons who serve without compensation from any definition of "employee" or similar expression. Such coverage may not be canceled or substantially modified without at least ten days prior written notice to the Association.

Section 10.3. Other Insurance. To the extent necessary to satisfy the requirements of the Secondary Mortgage Market Agencies, the Board of Directors shall also obtain construction code endorsements and flood insurance or any other insurance as determined to be necessary or desirable by the Board of Directors.

Section 10.4. Required Insurance Coverage on Lots. To protect adjoining Owners and to ensure that there are sufficient funds available to an Owner to restore the improvements on such Owner's Lot in case of damage or destruction, each Owner of a Lot containing a party wall shall maintain a fire and extended replacement cost (exclusive of land, excavation and other items

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normally excluded from coverage) of all improvements constructed on such Lot. The Owner shall provide evidence of such insurance to the Board of Directors upon request.

## ARTICLE 11

### RECONSTRUCTION AND REPAIR

Section 11.1. Common Area. Except as otherwise provided herein, if all or any part of any improvement located on the Common Area is damaged or destroyed by fire or other casualty, the Board of Directors shall arrange for and supervise the prompt repair and restoration thereof (including without limitation any floor coverings, fixtures and appliances). If destruction of the improvements located on the Common Area is insubstantial, the Board of Directors may elect not to repair such insubstantial damage. Otherwise, any decision not to repair or restore improvements on the Common Area shall be made in accordance with Section 14.4 hereof. If damaged improvements are not repaired, then the Board of Directors shall remove all remnants of the damaged improvements and restore the site thereof to an acceptable condition compatible with the remainder of the Common Area and the balance of any insurance proceeds received on account of such damage shall be placed in the appropriate reserve account. The Association shall not use the proceeds of casualty insurance received as a result of damage or destruction of improvements located on the Common Area for purposes other than the repair, replacement or reconstruction of such improvements except in accordance with this section and Section 14.4 hereof.

Section 11.2. Lots. If a building or other major improvement located upon a Lot is damaged or destroyed, the Owner thereof shall restore the site either: (i) by repairing or reconstructing such building or other major improvement; or (ii) by clearing away the debris and restoring the site to an acceptable condition compatible with the remainder of the Property. Unless the Covenants Committee permits a longer time period, such work must be commenced within six months after the casualty and substantially completed within twelve months after the casualty.

## ARTICLE 12

### COMPLIANCE AND DEFAULT

Section 12.1. Enforcement Provisions. Each Owner shall be governed by and shall comply with the Association Documents and Rules and Regulations, as amended from time to time. A default by an Owner shall entitle the Association, acting through its Board of Directors or through the managing agent, to the following relief.

(a) Additional Liability. Each Owner shall be liable to the Association or to any affected Owner for any costs incurred by the Association and the expense of all Upkeep

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rendered necessary by such Owner's act or omission, regardless of neglect or culpability, but only to the extent that such expense is not covered by the proceeds of insurance carried by the Association. Such liability shall include any increase in casualty insurance rates occasioned by use, misuse, occupancy or abandonment of any Lot or its appurtenances. Nothing contained herein, however, shall be construed as modifying any waiver by any insurance company of its rights of subrogation. Any costs, including without limitation legal fees, incurred as a result of a failure to comply with the Association Documents and Rules and Regulations by an Owner may be assessed against such Owner's Lot.

(b) New Owner Address. If a new Owner does not give the Secretary written notice of such Owner's name and the number or address of the Lot within thirty days after acquiring title to such Lot, then reasonable record-keeping costs incurred by the Association, as determined by the Board of Directors, may be assessed against such Owner's Lot. The Board may set or change the amount of such Assessment from time to time. Such Assessment shall be a lien against such Owner's Lot as provided in Section 12.2 hereof.

(c) Costs and Fees. In any proceedings arising out of any alleged default by an Owner or any suit brought by an Owner against the Association or any director or Officer, the prevailing party shall be entitled to recover the costs of such proceeding and reasonable attorneys' fees.

(d) No Waiver of Rights. The failure of the Association, the Board of Directors or an Owner to enforce any right, provision, covenant or condition which may be granted by the Association Documents shall not constitute a waiver of the right of the Association, the Board of Directors or any Owner to enforce such right, provision, covenant or condition in the future. All rights, remedies and privileges granted to the Association, the Board of Directors or any Owner pursuant to any term, provision, covenant or condition of the Association documents shall be deemed to be cumulative and the exercise of any one or more thereof shall not be deemed to constitute an election of remedies, nor shall it preclude the Person exercising the same from exercising such other privileges as may be granted to such Person by the Association Documents, the Act or at law or in equity.

(e) Interest. If a default by any Owner in paying any sum assessed against such Owner's Lot continues for a period in excess of ten days, interest from the due date at a rate not to exceed the lesser of the maximum permissible interest rate which may be charged by a Mortgagee under a Mortgage at such time or twelve percent per annum may be imposed at the discretion of the Board of Directors on the principal amount unpaid from the date due until paid. The imposition of interest shall not preclude collection of a late charge nor shall such charge be considered interest subject to the limitations of this subsection.

(f) Abating and Enjoining Violations. The violation of any Rules and Regulations adopted by the Board of Directors or the breach of any provision of the Association Documents shall give the Board of Directors the right, in addition to any other rights set forth in

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the Association Documents: (i) to enter the portion of the Property (excluding any occupied dwelling) pursuant to Section 3.3 hereof on which, or as to which, such violation or breach exists and summarily to abate and remove, at the expense of the defaulting Owner, any structure, thing or condition that may exist therein contrary to the intent and meaning of the provisions of the Association Documents or the Rules and Regulations, and the Board of Directors shall not thereby be deemed guilty in any manner of trespass; (ii) to use self-help to remove or cure any violation of the Association Documents or the Rules and Regulations on the Property (including without limitation the towing of vehicles); or (iii) to enjoin, abate or remedy by appropriate legal proceedings, either at law or in equity, the continuance of any such breach; provided, however, that before any construction may be altered or demolished (except in emergencies) judicial proceedings shall be instituted. The Board of Directors shall follow the due process procedures set fourth in Subsections 12.1 (h) and (i) hereof.

(g) Legal Proceedings. Failure to comply with any of the terms of the Association Documents or Rules and Regulations shall be grounds for relief, including without limitation an action to recover any sums due for money damages, injunctive relief, foreclosure of the lien for payment of all Assessments, any other relief provided for in the Association Documents and any other relief afforded by a court of competent jurisdiction, all of which relief may be sought by the Association, the Board of Directors, the managing agent or, if appropriate, by any aggrieved Owner and shall not constitute an election of remedies.

(h) Charges and Suspension of Rights. The Board of Directors or the Covenants Committee, as appropriate, has the power to impose charges and to suspend the right to vote in the Association (pursuant to Section 3.2 of the Bylaws) or other rights in the case of an Owner found to be responsible for a violation of the Association Documents or Rules and Regulations. The Board or Committee may suspend the right of an Owner or other occupant, and the right of such Person's household, tenants, guests, employees or invitees to use any facilities located on the Common Area (other than for access or utilities) for a reasonable period not to exceed sixty days, for any violation of any provision of any of the Association Documents or the Rules and Regulations or for any period during which any Assessment against an Owner's Lot remains unpaid; provided, however, the Association may not suspend or interfere with the ingress or egress to or from such Owner's Lot or access for utility services to such Owner's Lot. Charges may not exceed Fifty Dollars for each violation or Ten Dollars per day for each violation of a continuing nature or such greater amount as may be permitted by law. No charge may be imposed for failure to pay an Assessment except as otherwise provided in the Declaration. Charges are Individual Assessments and shall be collectible as such and shall also constitute a lien against a Lot in accordance with Section 12.2 hereof. No charge shall be imposed and no construction altered or demolished until the Person charged with such a violation has been given notice and an opportunity for a hearing as set forth in Subsection 12.1 (i) below. In addition, voting rights or other rights may not be suspended until the Person charged with the violation has been given notice and an opportunity for a hearing pursuant to Subsection 12.1 (i) below, unless such rights are suspended due to non-payment of Assessments, in which case the Person charged with the violation is not entitled to notice and an opportunity for a hearing. The Board of



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Directors or Covenants Committee may determine to take other actions, including without limitation performing maintenance on a Lot pursuant to Sections 6.2 and 7.2 hereof without providing a hearing. The Board or Committee may deliberate privately, but shall either announce its decision in the presence of the respondent or give the respondent notice thereof.

(i) Due Process. The Board of Directors or the Covenants Committee, before imposing any charge or before taking any action affecting one or more specific Owners shall afford such Person the following basic Due Process rights.

(i) Notice. The respondent shall be afforded prior written notice of any action (except when an emergency requires immediate action) and, if notice is of default or violation, an opportunity to cure which is reasonable under the circumstances, prior to the imposition of any sanction. The hearing, if a hearing is required pursuant to Subsection 12.1(h) above. Notice of any violation or any hearing shall be sent by registered or certified United States mail, return receipt requested, to the Owner at such Owner's address of record with the Association at least fourteen days prior to such hearing.

(ii) Hearing. If the respondent is entitled to a hearing pursuant to Subsection 12.1(h) above and requests in writing a hearing before any charge is imposed or action taken, then the imposition of the charge or the taking of the action shall be suspended until the respondent has an opportunity to be heard at a hearing at which the Board of Directors or Covenants Committee, as appropriate, discuss such charge or action. Each Person so appearing shall have the right to be represented by such Person's counsel, at such Person's own expense.

(iii) Appeal. Upon receipt of a written request thereof made within ten days after the date of an action by the Covenants Committee, the Board of Directors may afford the respondent the right to appeal to the Board, and the Board may modify confirm or reverse any action taken by the Covenants Committee.

(j) New Owner Address. If a new Owner does not give the Secretary written notice of such Owner's name and the number or address of the Lot within thirty days after acquiring title to such Lot then reasonable record-keeping costs incurred by the Association, as determined by the Board of Directors, may be assessed against such Owner's Lot. The Board may set or change the amount of such Assessment from time to time. Such Assessment shall be a lien against such Owner's Lot as provided in Section 12.2.

(k) Enforcement Against Subassociations. If a Subassociation fails to pay any Assessment or charge due from such Subassociation within thirty days after due, then the Association may attach any assessments or charges due from the Owners to such Subassociation, and notify such Owners that all assessments or other charges shall be paid directly to the Association until such Owners are notified otherwise. The Association may then retain such portion of the sums collected to satisfy the amount due from the Subassociation including any and all costs of collection and shall remit any sums collected in excess of Assessments or charges due

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to such Subassociation.

Section 12.2. Lien for Assessments.

(a) Lien. The total Annual Assessment of each Owner for Common Expenses, any Additional Assessment, any Individual Assessment or any other sum duly levied (including without limitation charges, interest, late charges, contractual charges, etc.), made pursuant to the Association Documents, is hereby declared to be a lien levied against any Lot owned by such Owner in accordance with this Declaration. Until fully paid and satisfied, the lien shall apply to and encumber all of the Lots that were owned, as of the date when payment was due, by the Owner from whom payment was due, and shall also apply to and encumber any and all Lots thereafter acquired by that Owner from the time such Owner becomes the Owner thereof. With respect to Annual Assessments, the lien is effective on the first day of each fiscal year of the Association and, as to Additional Assessments, Individual Assessments and other sums duly levied, the lien is effective ten days after the date of notice to the Owner of such Assessment or levy. The Board of Directors or the managing agent may file or record such other or further notice or any such lien, or such other or further document, as may be required to confirm the establishment and priority of such lien by Section 55-516 of the VPOA Act or otherwise by law. The lien created by this section shall be prior to all liens and encumbrances hereafter recorded except Mortgages, real estate taxes and other charges levied by governmental authority and made superior by law. The personal obligation of the Owner to pay such Assessment shall, in addition, remain such Owner's personal obligation and a suit to recover a money judgement for non-payment of any Assessment or installment thereof, levied pursuant hereto, may be maintained without foreclosing or waiving the lien herein created to secure the same.

(b) Acceleration. In any case where an Assessment against an Owner is payable in installments, upon a default by such Owner in the timely payment of any two consecutive installments, the maturity of the remaining total of the unpaid installments of such Assessment may be accelerated, at the option of the Board of Directors, and the entire balance of the Assessment may be declared due and payable in full by the service of notice to such effect upon the defaulting Owner.

(c) Enforcement. The lien for Assessment may be enforced and foreclosed in any manner permitted by the laws of Virginia for foreclosure of mortgages or deeds or trust containing a power of sale or by an action in the name of the Board or Directors, or the managing agent, acting on behalf of the Association. The Association shall have the power to bid on the Lot at foreclosure or other legal sale and to acquire, hold, lease, mortgage, convey or otherwise deal with such Lot.

(d) Remedies Cumulative. A suit to recover a money judgement for unpaid Assessments may be maintained without foreclosing or waiving the lien securing the same, and a foreclosure may be maintained notwithstanding the pendency of any suit to recover a money judgement.

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Section 12.3. Subordination and Mortgagee Protection. Notwithstanding any other provision hereof to the contrary, the lien of any Assessment levied pursuant to the Association Documents upon any Lot (and any charges, interest, late charges or the like) shall be subordinate to, and shall in no way affect the rights of the holder of a Mortgage made in good faith for value received; provided, however, that such subordination shall apply only to Assessments which have become due and payable prior to a sale or transfer of such Lot pursuant to foreclosure or any

proceeding in lieu of a Mortgage or the purchaser of the Lot as such sale from liability for any Assessments thereafter becoming due, nor from the lien of any such subsequent Assessment, which lien shall have the same effect and be enforced in the same manner as provided herein.

### ARTICLE 13

#### MORTGAGEES

Section 13.1. Notice to Board of Directors. Upon request, an Owner who mortgages such Owner's Lot shall notify the Board of Directors of the name and address of the Mortgagee. No Mortgagee shall be entitled to any Mortgagee rights under the Association Documents unless such Mortgagee has notified the Board of its address as required by Section 13.2 below and has requested all rights under the Association Documents.

Section 13.2. Notices to Mortgagees. Any Mortgagee who desires notice from the Association shall notify the Secretary of the Association to that effect by certified or registered United States mail, postage prepaid. Any such notice shall contain the name and address of the person or office address of such Mortgagee and the name of the person or office to whom notices from the Association should be directed. The Mortgagee shall be responsible for keeping such information up-to-date. The Board of Directors shall notify Mortgagees of the following:

- (a) Any default by an Owner of a Lot, upon which the Mortgagee has a Mortgage, in paying Assessments (which remains uncured for sixty days) or any other default, simultaneously with the notice sent to the defaulting Owner;
- (b) All Mortgagees shall be notified promptly of any event giving rise to a claim under the Association's policy arising from damage to improvements located on the Common Area in excess of ten percent of the total Annual Assessment for Common Expenses for that fiscal year.
- (c) All actions taken by the Association with respect to reconstruction of the Common Area or a Lot upon which the Mortgagee has a Mortgage;
- (d) Any termination, lapse or material modification in an insurance policy held by the Association;

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(e) Any taking in condemnation or by eminent domain of the Common Area and the actions of the Association in connection therewith;

(f) Any proposal to terminate the Declaration, at least sixty days before any action is taken to terminate in accordance with Article 15 hereof; and

(g) Any proposal to amend materially the Articles of Incorporation, this Declaration or the Bylaws, at least ten days before any action is taken pursuant to Section 14.4 hereof.

Section 13.3. Other Rights of Mortgagees. Upon request a Mortgagee or such Mortgagee's representatives shall have the right to receive notice of and to attend and to speak at meetings of the Association. All such Mortgagees shall have the right to examine the Association Documents, Rules and Regulations and books and records of the Association and to require the submission of annual financial reports and other budgetary information.

#### ARTICLE 14

##### AMENDMENT: EXTRAORDINARY ACTIONS

Section 14.1. Amendment by the Declarant. During the Development Period, the Declarant may unilaterally, without the approval of the Association, any Owner, Mortgagee or Secondary Mortgage Agency, amend any provision of this Declaration or any Supplementary Declaration to: (i) make non-material, clarifying or corrective changes; (ii) satisfy the requirement of any Government, Governmental Agency, Secondary Mortgage Agency or Mortgagee; (iii) reflect the relocation of boundary lines between the Common Area and any Lots or among any Lots; provided, however, that such relocation is reflected in an approved resubdivision of all or any part of the Property; and (iv) withdraw Submitted Land in accordance with Section 4.4 hereof.

Section 14.2 Amendment by the Association.

(a) Member Approval. Subject to Sections 14.3 and 14.4 hereof, the Association may amend this Declaration with the written approval of members entitled to cast at least sixty-seven percent of the total number of votes.

(b) Certification. An amendment by the Association shall not be effective until, certified by the President as to compliance with the procedures set forth in this Article, signed and acknowledged by the President and Secretary of the Association, and recorded among the Land Records. Any procedural challenge to an amendment must be made within one year after recordation.

(c) Supplementary Declaration. Amendment of a Supplementary Declaration is governed by the provisions for amendment contained therein and the requirements of Section 14.4 hereof. A Supplementary Declaration may not be amended to reduce the maximum annual Limited Common Expense assessment set forth therein. A Supplementary Declaration may not include provisions in conflict with the Declaration. Although the Declaration and Supplementary Declaration should be construed to give effect to both, in the case of conflicting provisions, the Declaration shall control.

Section 14.3. Prerequisites. Written notice of any proposed amendment by the Association shall be sent to every Owner at least fifteen days before any action is taken. No amendment shall increase the financial obligations of an Owner in a discriminatory manner or further restrict development on existing Lots in a discriminatory manner. No amendment to the Declaration shall diminish or impair the right of the Declarant during the Development Period under the Declaration without the prior written consent of the Declarant. No amendment to the Declaration shall diminish or impair the express rights of the Mortgagees under the Declaration without the prior written approval of a least fifty-one percent of the Mortgagees. No amendment may modify this Article or the rights of any Person hereunder. Except as specifically provided in the Declaration, no provision of the Declaration shall be construed to grant to any Owner or to any other Person any priority over any rights of Mortgagees.

Section 14.4. Extraordinary Actions of the Association. The provisions of this section shall not be construed to reduce the vote that must be obtained from members where a greater vote is required by the Act or other provisions of the Association Documents nor shall it be construed to lessen the unilateral rights given to the Declaration pursuant to Articles 3,4 and 14 hereof to amend the Declaration or a Supplementary Declaration without the consent of any Owner or Mortgagee. To the extent this section applies to amendments to a Supplementary Declaration, the approval of the Owners or Mortgagees required shall be deemed to refer only to the Owners of Lots or Mortgagees holding Mortgages on Lots subject to such Supplementary Declaration.

(a) Mortgage and Owner Approval. Without the approval of a least fifty-one percent of the Mortgagees and Owners entitled to cast at least sixty-seven percent of the total number of votes of each class of member, the Association shall not, by act or omission:

(i) seek to abandon, partition, subdivide, encumber, dedicate sell or transfer the Common Area owned in fee simple by the Association (except for making dedications to governmental entities, granting easements for utilities or other public purposes to benefit the Property or the adjoining land not inconsistent with the intended use of such Common Area or making boundary-line adjustments pursuant to Section 2.2 hereof);

(ii) add (except in a Supplementary Declaration) or change the method of determining the obligations, assessments or other charges which may be levied against an Owner or voting rights of any member (except to reduce the Declarant voting rights with the consent of

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the Declarant);

(iii) add (except in a Supplementary Declaration), change, waive or abandon any scheme or regulation or enforcement thereof, pertaining to architectural design or exterior appearance or Upkeep of the Lots or Common Area;

(iv) fail to maintain fire and extended coverage on insurable Common Area on a current replacement cost basis in an amount at least 100 percent of the insurable value (based on current replacement cost), in accordance with Article 10 hereof;

(v) use hazard insurance proceeds for losses to the Common Area for any purpose other than repair, replacement or restoration of such Common Area substantially in accordance with the Association Documents and the original plans and specifications, except as provided in Article 11 hereof;

(vi) terminate the Declaration or dissolve the Association or merge or consolidate with another association (except pursuant to a merger or consolidation with another entity formed for similar purposes); or

(vii) add (except in Supplementary Declarations) or amend any material provisions of the Association Documents which establish, provide for, govern or regulate any of the following:

(a.) voting (except to reduce the Declarant's voting rights with the consent of the Declarant),

(b.) Assessment liens or priority of such liens;

Common Area;

(c.) reserves for maintenance, repair and reconstruction of the

(d.) insurance or fidelity bonds;

(e.) rights to use of the Common Area;

(f.) maintenance responsibility;

(g.) leasing of Lots;

(h.) imposition of any right of first refusal or similar restriction on the right of an Owner to sell, transfer or otherwise convey such Owner's Lot;

(i.) expansion or contraction of the Property or the addition, annexation or withdrawal of land to or from the Property;

(j.) the convertibility of Lots into Common Area or vice versa; or

(k.) any provisions which are for the express benefit of Mortgagees.

(b) Nonmaterial Amendments. Any amendment to the Association Documents shall not be considered material if made only for the purpose of correcting technical errors or for clarification.

(c) Presumptive Approval. Any Mortgagee who is notified of amendments or actions of the Association by certified or registered United States mail, return receipt requested, and who does not deliver a negative response to the Secretary of the Association within thirty days thereafter shall be deemed to have approved such amendment or action.

(d) VA or FHA Consent. When a VA guarantee is in effect on a Mortgage, without the consent of VA, or when FHA insurance is in effect on a Mortgage, without the consent of FHA during the Declaration Control Period, the Association may not take any action described in Section 14.4(a) hereof or annex any additional land. The foregoing shall only apply for so long as a Lot within the Property is encumbered by a loan guaranteed by VA or insured by FHA. In addition, during the Declarant Control Period, VA or FHA must be informed of all amendments to the Association Documents if such Documents have been previously approved by such agency.

## ARTICLE 15

### TERMINATION

Section 15.1 Duration, Termination by the Association. The Covenants and Restrictions of this Declaration shall run with the land and bind the Property in perpetuity, unless amended as provided above or terminated as hereinafter provided. Subject to Section 14.4 hereof, the Association may terminate this Declaration only with the written approval of members entitled to cast at least eighty percent of the total number of votes. The termination shall not be effective until certified by the President as to compliance with the procedures set forth in this Article, signed and acknowledged by the President and Secretary of the Association and recorded among the Land Records.

Section 15.2 Prerequisites. Written notice of the proposed termination shall be sent to every Owner and Mortgagee at least sixty days before any action is taken. The Declaration may not be terminated during the Development Period without the prior written consent of the Declarant. Such termination shall not affect any permanent easements or other permanent rights or interests relating to the Common Area created by or pursuant to the Association Documents.

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To the extent necessary, the termination agreement shall provide for the transfer or assignment of the easements, rights or interests granted to the Association herein to a successor entity which is assuming the Association's maintenance and regulatory responsibilities. Any lien which has arisen pursuant to the provisions of the Declarant shall remain in full force and effect despite termination of the Declaration until the amounts secured thereby are paid in full.

Section 15.3 Conveyance of Common Area Upon Dissolution. Upon dissolution of the Association, the assets of the Association must be conveyed to another nonprofit entity, governmental or public agency formed for purposes similar to the purposes for which the Association was formed.

## ARTICLE 16

### PARTY WALLS AND FENCES

Section 16.1. Applicable Law; Easement. All matters arising in connection with any wall which would constitute a party wall at common law shall, to the extent consistent with the provisions of this Article, be subject to the common law of Virginia as modified by statute from time to time and as modified by this Article. If the centerline of a party wall now or hereafter fails to coincide with the boundary between the Lots it serves, as easement for any resulting encroachment is hereby granted. If a party wall serves three or more Lots, each segment of it serving two Lots shall be treated for the purposes of this Article as a separate party wall.

Section 16.2. Upkeep. The owners of Lots served by a party wall shall provide for the Upkeep of party walls and shall share equally the cost of its Upkeep except as otherwise provided in this Article. No owner shall impair the structural integrity of any party wall nor diminish the fire protection afforded by any party wall.

Section 16.3 Destruction by Fire or Other Casualty. If a party wall is destroyed or damaged by fire or other casualty, the following procedures shall be followed in order to restore such party wall.

(a) Either Owner served by the party wall shall notify the other Owner served by the party wall of any proposal to repair the wall. If within ten days after such notice (or in an emergency, within twenty-four hours after such notice or a bona fide attempt to give such notice) the other Owner has not responded to the notice, then the Owner giving notice may proceed with the repairs. Such repairs must be substantially similar to the original construction and installation and of first class quality, but may be made with contemporary materials.

(b) If the other owner served by the party wall responds to the notice, the Owners shall act together to repair the party wall. If the Owners are unable to agree upon the action to be taken, they shall submit the issue to arbitration in accordance with Section 16.5.



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(c) If any Owner restores a party wall in accordance with this section, then the other Owner shall contribute one-half of the cost thereof. An Owner may, however, demand a larger contribution from the other Owner or refuse to contribute one-half of such costs, under any rule of law or equity regarding liability for negligent or willful acts or omissions.

(d) To the extent that any failure to repair a party wall affects the use and enjoyment of the Common Area or appearance of the Property, the Association may participate in the repair of the party wall, and in an emergency situation threatening life or property, may make such repair without notice to the Owners. The Association may assess the cost of such repair against the Owners responsible for the damage or benefiting from the repair pursuant to Sections 12.1(a) and 6.2(c).

Section 16.4 Liability. Any Owner who by a negligent or willful act or omission causes or permits a party wall to be damaged shall pay the cost of restoring such party wall to the condition prior to such damage.

Section 16.5. Arbitration. In the event of any dispute between Owners concerning a party wall, the Owners on each side shall each select an arbitrator, and the arbitrators thus selected shall be qualified by experience and education to serve as such. Once selected, the arbitrators shall promptly agree upon and notify the parties of the discovery procedures and rules of evidence to be used in the arbitration. The arbitrators shall be requested to reach a decision within twenty days after their appointment. The decision of a majority of the arbitrators shall bind the Owners and their successors in interest. The cost of arbitration shall be paid by the losing party unless the arbitrators determine that the cost should be otherwise allocated between the parties, in which case that allocation shall be binding.

Section 16.6. Fences and Other Barrier. The provisions of this Article pertaining to party walls shall also govern any fence, other barrier or shared improvement originally installed by the Declarant or a Builder (except for fences or barriers installed in connection with construction activities) and to any replacement thereof authorized by the Board of Directors or the Covenants Committee. Otherwise, the upkeep of any fence, other barrier or improvement shall be the responsibility of the Owner installing such fence, barrier or improvement unless different arrangements are agreed to by the adjoining Owners.

Section 16.7 Right to Contribution Runs With Land. Rights and duties of contribution set forth in this Article and any such rights and duties arising under the laws of Virginia shall run with the land and bind successor in interest. This Article shall not prejudice any right of a successor in interest to recover any amount from a predecessor in title for which such predecessor was liable. Any rights of contribution set forth in this Article shall constitute against any Owner obligated to pay such contribution. Until fully paid and satisfied, the lien shall apply to and encumber all of the Lots that were owned, as of the date when payment was due, by the Owner from the time such Owner becomes the Owner thereof. The lien created by this section shall be prior to all liens and encumbrances except mortgages, real estate taxes and other charges levied by

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governmental authority made superior by law and the Association's lien established pursuant to Section 12.2.

ARTICLE 17

COMMON DRIVEWAYS

Section 17.1. Definitions.

(a) "Common Driveways" shall be the areas within the Ingress and Egress Easements as shown on the plats of the Property attached to the Deeds of Declaration, Subdivision, and Easement for Lots.

(b) "Affected Lots" shall be the Lots that use the Common Driveways for access to the dwellings constructed on such Lots. Lots which are subject to the Ingress and Egress Easements but which do not use the Common Driveways for access to the dwelling constructed on such Lot are not Affected Lots and are not subject to the maintenance provisions of Section 17.4 of this Article, unless the Owners of such Lots, or their respective households, guests, tenants or agents make regular use of the Common Driveway.

Section 17.2. Restrictions.

(a) Use. Common Driveways shall be used exclusively for the purpose of ingress and egress to the Affected Lots and for the construction and maintenance of utilities for the Lots subject to the Easements.

(b) Restrictions. No act shall be performed by any Owner, member of such Owner's household or such Owner's tenants, guests or agents which would in any manner affect or jeopardize the free and continuous use and enjoyment of any other Owner of an Affected Lot in and to the Common Driveway.

(c) Parking. There shall be no parking within Common Driveways at any time except for delivery and/or emergency vehicles, unless the Board of Directors, by Resolution, determines otherwise upon petition of an Owner of an Affected Lot.

Section 17.3 Maintenance, Damage or Destruction. In the event that any Common Driveway needs maintenance or is damaged or destroyed (including deterioration from ordinary wear and tear and lapse of time or preventative maintenance):

(a) through the act of omission of an Owner, such Owner's household or any of

such Owner's guests, employees, is negligent or otherwise culpable, it shall be the obligation of such Owner to maintain, rebuild and repair the Common Driveway without cost to the other Owners of Affected Lots served by that Common Driveway;

(b) other than by the act or omission of an Owner for which such Owner is responsible, it shall be the obligation of all Owners of Affected Lots served by that Common Driveway to maintain, rebuild and repair such Common Driveway at their joint and equal expense.

Section 17.4 Cost of Maintenance.

(a) Association Maintenance. If the Owners of Affected Lots do not perform all necessary maintenance, rebuilding and repairs to any Common Driveway, at the discretion of the Board of Directors or upon the request of a majority of the Owners of the Affected Lots, the Association may do so as their agent, using any funds escrowed for that Common Driveway and for levying Individual Assessments pursuant to this section and Section 6.2 (c) against the Affected Lots served by such Common Driveway as may be needed to cover the cost of the work. The Individual Assessment may be levied prior to performing the work, based on a good faith estimate of the cost as determined by the Board of Directors. If the Board of Directors so determines, the Board may establish an escrow fund and levy an assessment against the Owners of Affected Lots not to exceed a maximum annual charge computed as follows: \$.25 multiplied by the number of square feet of paved area within the pertinent Common Driveway divided by the number of Affected Lots for that Common Driveway. This maximum charge shall be increased by ten percent each fiscal year.

(b) Lien. If established, the annual charge shall be paid with and be a part of the first payment of the regular assessment in each fiscal year, and shall be subject to the same penalty, interest, lien, and other provisions as the regular assessment. The failure of any Owner to pay the annual charge within thirty days from the start of each fiscal year shall result in an assessment lien against such Owner's Lot.

(c) Escrow. The Association shall hold any annual charge in escrow and shall maintain a separate accounting for the escrowed funds for each Common Driveway.

(d) Right to Contribution. Rights and duties of contribution set forth in this Article and any such rights and duties arising under the laws of Virginia shall run with the land and bind successors in interest. This Article shall not prejudice any right of a successor in interest to recover any amount from a predecessor in title for which such predecessor was liable. Any rights of contribution set forth in this Article shall constitute a lien in favor of any Owner entitled to contribution against any Owner obligated to pay such contribution. Until fully paid and satisfied, the lien shall apply to and encumber all of the Lots that were owned, as of the date when payment was due, by the Owner from whom payment was due, and shall also apply to and

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encumber any and all Lots thereafter acquired by that Owner from the time such Owner becomes the Owner thereof. The lien created by this section shall be prior to all liens and encumbrances except Mortgages, real estate taxes and other charges levied by governmental authority made superior by law and the Association's lien established pursuant to Section 12.2.

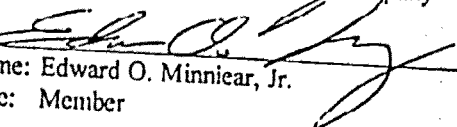
ARTICLE 18

ADDENDUM

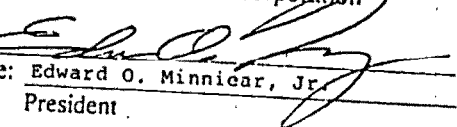
Section 18.1. Incorporation of Addendum. The Addendum, consisting of pages A-1 and A-2, attached hereto, is hereby incorporated into and made a part of this Declaration as is fully set forth in this Section 18.1.

IN WITNESS WHEREOF, the undersigned has caused this Declaration to be signed pursuant to due and proper authority as of the date first set forth above.

SALEM RUN COMPANY, LLC  
a Virginia Limited Liability Company

By:   
Name: Edward O. Minniear, Jr.  
Title: Member

SALEM RUN HOMEOWNERS  
ASSOCIATION, INC.  
a Virginia nonstock corporation

By:   
Name: Edward O. Minniear, Jr.  
Title: President

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SALEM RUN ASSOCIATES, L.P.  
a Virginia Limited Partnership

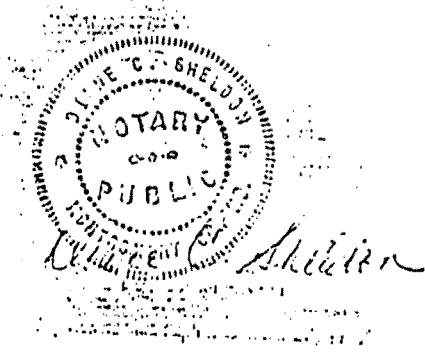
By: CASTLE DEVELOPMENT  
CORPORATION, a Virginia  
corporation, as an authorized  
general partner

By: \_\_\_\_\_  
Name: Michael L. McNamara  
Title: President

HOMES FOR FREDERICKSBURG  
LIMITED PARTNERSHIP  
a Virginia Limited Partnership

By: FIRST CENTRUM CORPORATION  
Managing General Partner

By:   
Name: Michael T. Milhaupt  
Title: Executive Vice President



CANNON/SALEM RUN, L.P.  
a Virginia Limited Partnership

By: \_\_\_\_\_  
Name: Jeffrey Petagna  
Title: General Partner

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SALEM RUN ASSOCIATES, L.P.  
a Virginia Limited Partnership

By: CASTLE DEVELOPMENT  
CORPORATION, a Virginia  
corporation, as an authorized  
general partner

By: \_\_\_\_\_  
Name: Michael L. McNamara  
Title: President

HOMES FOR FREDERICKSBURG  
LIMITED PARTNERSHIP  
a Virginia Limited Partnership

By: FIRST CENTRUM CORPORATION  
Managing General Partner

By: \_\_\_\_\_  
Name: Michael T. Milhaupt  
Title: Executive Vice President

CANNON/SALEM RUN, L.P.  
a Virginia Limited Partnership

By: \_\_\_\_\_  
Name: Jeffrey Petagna  
Title: General Partner

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SALEM RUN ASSOCIATES, L.P.  
a Virginia Limited Partnership

By: CASTLE DEVELOPMENT  
CORPORATION, a Virginia  
corporation, as an authorized  
general partner

By: Michael L. McNamara  
Name: Michael L. McNamara  
Title: President

HOMES FOR FREDERICKSBURG  
LIMITED PARTNERSHIP  
a Virginia Limited Partnership

By: FIRST CENTRUM CORPORATION  
Managing General Partner

By: \_\_\_\_\_  
Name: Michael T. Milhaupt  
Title: Executive Vice President

CANNON/SALEM RUN, L.P.  
a Virginia Limited Partnership

By: \_\_\_\_\_  
Name: Jeffrey Petagna  
Title: General Partner

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COMMONWEALTH OF VIRGINIA )  
 )  
COUNTY OF SPOTSYLVANIA )

ss:

I, the undersigned, a Notary Public in and for the jurisdiction aforesaid, do hereby certify that SALEM RUN COMPANY LLC, a Virginia Limited Liability Corporation, whose name is signed to the foregoing instrument, has acknowledged the same before me in the aforesaid jurisdiction as a duly authorized officer of the corporation.

GIVEN under my hand and seal on \_\_\_\_\_, 1995.

[SEAL]

COMMONWEALTH OF VIRGINIA )  
 )  
COUNTY OF *Richmond* )

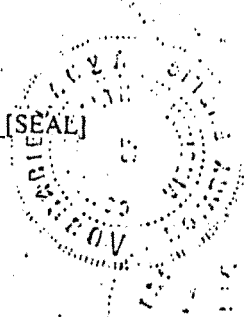
ss:

I, the undersigned, a Notary Public in and for the jurisdiction aforesaid, do hereby certify that Michael L. McNamara, President of CASTLE DEVELOPMENT CORPORATION, a Virginia corporation as an authorized general partner of SALEM RUN ASSOCIATES, L.P., A Virginia Limited partnership, whose name is signed to the foregoing instrument, has acknowledged the same before me in the aforesaid jurisdiction as a duly authorized officer of the corporation.

GIVEN under my hand and seal on November 29, 1995.

[SEAL]

My Commission Expires June 29, 1999





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COMMONWEALTH OF VIRGINIA )  
*City of Fredericksburg* ) ss:  
COUNTY OF SPOTSYLVANIA )

I, the undersigned, a Notary Public in and for the jurisdiction aforesaid, do hereby certify that SALEM RUN COMPANY LLC, a Virginia Limited Liability Corporation, whose name is signed to the foregoing instrument, has acknowledged the same before me in the aforesaid jurisdiction as a duly authorized officer of the corporation.

GIVEN under my hand and seal on December 4<sup>th</sup>, 1995.

*Judith H. Carter* [SEAL]  
*My Commission Expires 6-30-99*

COMMONWEALTH OF VIRGINIA )  
 ) ss:  
COUNTY OF )

I, the undersigned, a Notary Public in and for the jurisdiction aforesaid, do hereby certify that Michael L. McNamara, President of CASTLE DEVELOPMENT CORPORATION, a Virginia corporation as an authorized general partner of SALEM RUN ASSOCIATES, L.P., A Virginia Limited partnership, whose name is signed to the foregoing instrument, has acknowledged the same before me in the aforesaid jurisdiction as a duly authorized officer of the corporation.

GIVEN under my hand and seal on \_\_\_\_\_, 1995.

\_\_\_\_\_ [SEAL]

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COMMONWEALTH OF VIRGINIA )  
 ) ss:  
COUNTY OF \_\_\_\_\_ )

I, the undersigned, a Notary Public in and for the jurisdiction aforesaid, do hereby certify that Jeffrey Petagna, General Partner of CANNON/SALEM RUN L.P. a Virginia limited partnership, whose name is signed to the foregoing instrument, has acknowledged the same before me in the aforesaid jurisdiction as a duly authorized partner.

GIVEN under my hand and seal on \_\_\_\_\_, 1995.

\_\_\_\_\_[SEAL]

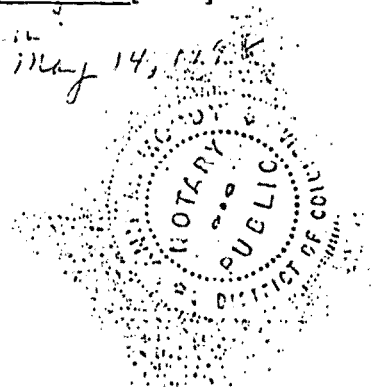
DISTRICT OF COLUMBIA ) ss:

I, the undersigned, a Notary Public in and for the jurisdiction aforesaid, do hereby certify that Michael T. Milhaupt, Executive Vice President of First Centrum Corporation, the managing general partner of HOMES FOR FREDERICKSBURG LIMITED PARTNERSHIP, a Virginia limited partnership, whose name is signed to the foregoing instrument, has acknowledged the same before me in the aforesaid jurisdiction as a duly authorized officer of the corporation.

GIVEN under my hand and seal on November 2<sup>nd</sup>, 1995.

Anne M. Hardy [SEAL]

*My Commission expires May 14, 1996*



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COMMONWEALTH OF VIRGINIA )  
*City Fredericksburg* )  
COUNTY OF SPOTSYLVANIA )

ss:

I, the undersigned, a Notary Public in and for the jurisdiction aforesaid, do hereby certify that Jeffrey Petagna, General Partner of CANNON/SALEM RUN, L.P. a Virginia limited partnership, whose name is signed to the foregoing instrument, has acknowledged the same before me in the aforesaid jurisdiction as a duly authorized partner.

GIVEN under my hand and seal on November 25<sup>th</sup>, 1995.

Judy H. Carter [SEAL]  
6-30-99

)  
)  
)

ss:

I, the undersigned, a Notary Public in and for the jurisdiction aforesaid, do hereby certify that Michael T. Milhaupt, Executive Vice President of First Centrum Corporation, the managing general partner of HOMES FOR FREDERICKSBURG, L.P. a Virginia limited partnership, whose name is signed to the foregoing instrument, has acknowledged the same before me in the aforesaid jurisdiction as a duly authorized officer of the corporation.

GIVEN under my hand and seal on \_\_\_\_\_, 1995.

\_\_\_\_\_ [SEAL]

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COMMONWEALTH OF VIRGINIA )  
*City of Fredericksburg* )  
COUNTY OF SPOTSYLVANIA )

ss:

I, the undersigned, a Notary Public in and for the jurisdiction aforesaid, do hereby certify that SALEM RUN HOMEOWNERS ASSOCIATION, INC a Virginia nonstock corporation whose name is signed to the foregoing instrument, has acknowledged the same before me in the aforesaid jurisdiction as a duly authorized officer of the corporation.

GIVEN under my hand and seal on December 4<sup>th</sup>, 1995.

*Judy H. Carter* [SEAL]  
*My Commission Expires 6-30-99*

AGREEMENT TO PARTICIPATE  
IN COMMON AREA EXPENSES AND  
PROVIDE CERTAIN RECREATIONAL FACILITIES

This Agreement made this \_\_\_\_\_ day of April, 1997, between GREENS OF SALEM RUN LIMITED PARTNERSHIP, an Ohio Limited Partnership, hereinafter referred to as "Greens", and SALEM RUN HOMEOWNERS ASSOCIATION, INC., hereinafter referred to as "Association".

RECITALS

- 1.1 WHEREAS, the Association is the owner of certain real estate heretofore deeded to the Association by Salem Run Company, L.L.C.; and
- 1.2 WHEREAS, it is anticipated that additional real estate may be transferred to the Association; and
- 1.3 WHEREAS, all real estate presently owned by or hereafter deeded to the Association shall be held as common area for the use and enjoyment of the members of the Association. All land presently owned or hereafter acquired by the Association is herein called "general common area"; and
- 1.4 WHEREAS, the Association, as set out in Declaration for Salem Run Homeowners Association recorded on May 5, 1995, in the Clerk's Office of the Circuit Court of Spotsylvania County, has the responsibility of maintaining the general common area (hereinafter called "General Common Area Maintenance") which maintenance consists of the expenditures for the following:
  - (a) Maintenance of the two existing stormwater detention

ponds.

- (b) Maintenance of the landscaping and street trees along both sides of Salem Run Boulevard.
- (c) Electric bill for the street lights planned along Salem Run Boulevard.
- (d) Upkeep of the two entrance monuments, signs and associated landscaping at the Salem Run Boulevard entrances onto Salem Church Road.
- (e) Maintenance of the planned asphalt walking trails.
- (f) Ownership and upkeep of any general common area property.
- (g) A sinking fund or reserve for replacement for the above facilities (ponds, trees, signs, trails).
- (h) "Overhead" costs, including general liability insurance, management company fees and accounting fees.

1.5 WHEREAS, Greens is the developer of two parcels of real estate which real estate when developed will derive some benefits from the proper maintenance of the general common area

NOW THEREFORE WITNESS, that for valuable consideration, the receipt of which is hereby acknowledged by both parties, the parties agree to the following:

2.0 Associations Responsibility to Maintain the General Common Area:

2.1 The Association shall be responsible for the adoption of the necessary budget, herein called "General Common Budget", collection from the Association Members of each Member's share of the budgeted costs and for the General Common Area Maintenance.

3.0 Greens Responsibility to pay portion of General Common Area Maintenance Costs.

3.1 The Greens anticipates the development of its real estate to include 200 townhouse apartments. The development of the 200 units will be phased over a period of time.

3.2 The Greens will pay to the Association a fractional share of the General Common Budget, which fraction shall be one share for each townhouse apartment developed and initially occupied.

3.3 The calculation of the share shall be one divided by the total number of built residential units or homes existing in Salem Run, with the multi-family apartments calculated as one unit per each two built apartments.

3.4 During the development phase of the Greens project, and until initially occupied, it will pay for each of its proposed 200 units 25% of one share of the General Common Budget.

4.0 Adoption of General Common Budget.

4.1 The parties agree that the General Common Budget shall contain only such costs as are reasonably necessary to provide General Common Area Maintenance and that no costs for the maintenance of any other item shall be included in the budget without the express written consent of Greens.

4.2 The Association agrees that prior to the adoption of the General Common Area Budget it will provide a copy of

the proposal budget to the Greens and consult with the Greens concerning each budget item.

5.0 Association Remedy in Event of Default.

5.1 In the event the Greens fail to pay its agreed contribution, the Association's sole remedy shall be an action at law to obtain a Judgment against the Greens for such sums with interest at the lawful rate from the date originally due as it might owe the Association.

6.0 Greens Remedy in the Event of Default.

6.1 In the event the Association fails to perform its obligation hereunder the Greens shall have the right, but not the duty, to maintain, repair or pay for any or all of the items of common area maintenance set forth in Faragraph 1.4 hereof.

6.2 In the event the Greens expends any funds on the maintenance of the common area items, by reason of failure of the Association to perform the proper maintenance, it shall be entitled to recover against the Association the actual costs expended plus 20% as agreed liquidated damages.

6.3 The Greens shall have both its actions at law and equity against the Association. The right of specific performance to compel the Association to adopt a reasonable general common area budget and to collect the share of such budget from individual members is specifically reserved.

7.0 Miscellaneous Provisions.



7.1 The parties agree that the terms of this agreement shall enure to the benefit of the parties hereto and their successors and assigns.


7.2 The parties executing this agreement warrant to each other that they have the authority to execute this agreement and to bind the parties to the terms hereof.

7.3 The parties agree that in the event legal action is instituted by either party hereto that the sole venue for such action shall be in the Circuit Court of Spotsylvania County, Virginia.

7.4 The parties agree that in the event legal action is instituted by either party, that both parties specifically waive trial by jury, and that the prevailing party in such action shall be entitled to recover from the losing party, as part of its judgment, its reasonable attorneys fees, court costs, trial preparation costs and witness fees.

8.0 Availability of Greens Recreational Facilities

8.1 The Greens will construct within their project a pool, clubhouse, tennis courts, mini-park, and ballfields. The owners of the 58 planned (or existing) single family units in Salem Run shall have the option to use the foregoing facilities. The single family unit owners, electing to use said facilities, shall pay to Greens a reasonable annual fee for the pro-rated cost of the operation and maintenance of these facilities. The pro-rated fee shall not exceed 1/258th of the total cost.



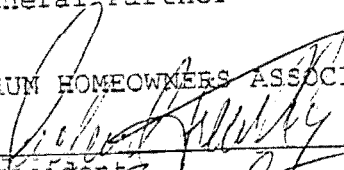
The use fee for the first year shall be the lesser of  
1/258th of the total cost or \$240.00.

WITNESS the following signatures and seals:

GREENS OF SALEM RUN LIMITED PARTNERSHIP

By: \_\_\_\_\_  
General Partner

SALEM RUN HOMEOWNERS ASSOCIATION, INC.

By:   
\_\_\_\_\_  
President  
*Richard Tremblay*

The use fee for the first year shall be the lesser of  
1/258th of the total cost or \$240.00.

WITNESS the following signatures and seals:

GREENS OF SALEM RUN LIMITED PARTNERSHIP

By: \_\_\_\_\_  
General Partner

SALEM RUN HOMEOWNERS ASSOCIATION, INC.

By: \_\_\_\_\_  
President

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ADDENDUM  
TO  
DECLARATION  
FOR  
SALEM RUN HOMEOWNERS ASSOCIATION, INC.

In the fourth (4th) line of the definition of "Mortgagee" in Section 1.1(u), the words "any other lender regularly engaged in financing", is changed to "any other entity whose regular business includes providing financing for".

In Section 1.3(c), the first two sentence at the top of page 12 are changed to read as follows: "The Class C members shall be the Owners of the Lots designated for multi-family units. Each Class C member shall have one vote for each ten (10) units owned".

Article 3 is hereby modified to confirm that any rights on the part of the Declarant or the Association to grant or create easements or rights on, over, in, or with respect to any Lot shall terminate upon the conveyance of such Lot to a Builder or Owner.

In lines 10, 11, and 12 of Section 4.1, the phrase "to such additional covenants and restrictions as may be necessary to reflect the different characteristics of such portion of the Property" is repeated twice, and the second repetition of such phrase is hereby deleted.

In the fifth (5th) line of Section 6.1(b)(ii), the words "have not have incurred" are changed to "have not been incurred".

In the third (3rd) line of Section 6.2(a)(i)(a.), the word "owner" is changed to "Owners"; and at the end of the Section, add the following sentence: "The Owners of the multi-family units (the Class C members) will not be subject to special assessments, additional assessments, or other charges, except only for violations of this Declaration to the extent provided herein."

At the end of Section 6.2(a)(iii)(a.), add the words "for every two (2) units".

In Section 6.2(a)(iii)(b.)[1.][b.], the parentheticals for the Consumer Price Index are changed to "(1982-84 = 100)".

The "(c.)" on page 23 is changed to "(c.)".

In Section 6.2(c) "Subjection 12.1(h)" is changed to "Section 12.1(h)".

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The first (1st) sentence of Section 6.4(b) is hereby changed by replacing from the word "except" in the fifth (5th) line through the end of the sentence with the following: "except that unpaid Assessments for a period extending both before and after the time such holder or purchaser comes into possession of such Lot shall be pro rated on a daily basis over the number of days in the period covered by the Assessment, and such holder or purchaser shall be responsible only for the pro rated portion of the Assessment applicable to the period after the time such holder or purchaser comes into possession of such Lot."

In the second (2nd) line of Section 6.6, the word "purchases" is changed to "purchaser".

In the eighth (8th) line of Section 7.2, the word "ware" is changed to "wear".

Sections 8.1 and 8.2(u) are amended to allow each Class C member to include a leasing office and such other attendant commercial uses as are allowed by applicable zoning ordinances in the multi-family buildings constructed on such member's Lots.

Section 8.2(j) is amended to grant each Class C member the right to maintain a marketing and leasing trailer on its Lots.

In the first (1st) line of Section 8.2(v), the word "constructed" is changed to "construed"; and in the third (3rd) line the "(I)" is changed to "(i)".

In fourth (4th) line of Section 8.3, the word "consistent" is changed to "inconsistent".

In the sixth (6th) line of Section 9.3(a), the words "Declarant may establish the" are deleted. Section 11.2 is amended to provide that for the multi-family Lots, the restoration or clearing away periods shall be extended for such longer periods as are necessary assuming reasonable diligence on the part of the applicable Owner in pursuing such restoration or clearing away.

In the seventh (7th) line of Section 12.3, before the word "Mortgage" add: "foreclosure, and nothing herein shall relieve any".

Clause (iii) of Section 14.1 is hereby changed to read as follows: "(iii) to reflect in the legal descriptions of the Submitted Land or the Additional Land, as necessary, any changes resulting from the relocation of boundary lines between the Common Area and any Lot or between Lots caused by an approved resubdivision of all or any of the Property;"

The provisions of Article 17 shall not be applicable to any common driveway or ingress and egress easement/area which is the subject of a separate, recorded easement agreement to which the Declarant or the Association is a party.

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The provisions of the following Sections shall not apply to the Owners of the multi-family units (Class C members): 6.1(d)(iv), 6.2(a)(iii)(c.), 6.2(d), 6.3(a), 7.3, 8.2(h), 8.2(k), 8.5(a), and 9.4.

The Declarant and the Association acknowledge and agree that the development of the property known as Parcel F2B, Salem Run, shown on the plat dated October 6, 1995, by Harry A.V. Lundstrom, Jr., recorded in Plat File 5, Pages 393 and 394, among the land records of Spotsylvania County, Virginia, and of the property known as Parcel F2A of Salem Run (also shown on the said plat recorded in Plat File 5, Pages 393 and 394, among the land records of Spotsylvania County, Virginia, substantially in accordance with the site plan and architectural plans submitted in connection with the Conditional Use Permit CP95-1, approved by the Spotsylvania County Board of Supervisors on April 25, 1995, will satisfy all architectural review and construction review and approval requirements under this Declaration or at any time imposed by this Declaration, the Declarant, the Association, or any architectural review or covenants committee established hereunder or by the Declarant or the Association.

B1339P750

EXHIBIT "A"

Submitted Land

1. Owned by Cannon/Salem Run Limited Partnership:

All that parcel of 0.8894 acres which is subdivided as Section 5, Phase 1A of Salem Run Subdivision as shown on plat of Joseph C. Coppedge, L.S., dated June 26, 1995, and recorded in the Clerk's Office of the Circuit Court of Spotsylvania County, Virginia, in Plat File 5, at Page 325.

Being a portion of the same property acquired by Cannon/Salem Run Limited Partnership, a Virginia limited partnership, by Deed of Salem Run Company, L.L.C., a Virginia limited liability company, dated November 3, 1995, and recorded in the aforesaid Clerk's Office in Deed Book 1333, at Page 241.

2. Owned by Salem Associates, L.P.:

All that certain tract or parcel of land, with all improvements thereon and all appurtenances thereto, situate, lying and being in the Courtland Magisterial District, Spotsylvania County, Virginia, and containing 13.1050 acres, being Parcel E of Salem Run Subdivision, designated as "Parcel "E" on that certain plat prepared by Harry A. V. Lundstrom, Jr., dated November, 1994, last revised November 29, 1994, consisting of three sheets, entitled "Plat Showing Parcel E & F, Salem Run, Courtland District, Spotsylvania County, Virginia," and recorded in the Clerk's Office of the Circuit Court of Spotsylvania County, Virginia, in Plat File 4, at Pages 761 through 763.

Being the same property acquired by Salem Run Associates, L.P., a Virginia limited partnership, by Deed of Salem Run Company, L.L.C., a Virginia limited liability company, dated November 28, 1994, and recorded November 30, 1994, in the aforesaid Clerk's Office in Deed Book 1262, at Page 425.

3. Owned by Homes for Fredericksburg Limited Partnership:

All that certain plot, piece or parcel of land situate, lying and being in Spotsylvania County, Virginia, and more particularly described as Parcel F2B, Salem Run, containing 4.1179 acres, shown on the plat dated October 6, 1995, prepared by Harry A. V. Lundstrom, Jr., and recorded in the Clerk's Office of the Circuit Court of Spotsylvania County, Virginia, in Plat File 5, at Page 393.

Being the same property acquired by Homes for Fredericksburg Limited Partnership, a Virginia limited partnership, by Deed of Salem Run Company, L.L.C., a Virginia limited liability company, dated November 13, 1995, and recorded November 15, 1995, in the aforesaid Clerk's Office in Deed Book 1335, at Page 62.

B1339P751

EXHIBIT "B"

Additional Land

All of the remainder of that parcel of land lying in the Courtland Magisterial District, Spotsylvania County, Virginia, shown as 97.7638 acres on plat of Salem Run by Harry A. V. Lundstrom, Jr., C.E., dated September 26, 1994, and recorded in the Clerk's Office of the Circuit Court of Spotsylvania County, Virginia, in Plat File 4, at Page 683;

Less and except, however:

1. Section 5, Phase 1A of Salem Run, consisting of 0.8894 acres on plat of Joseph C. Coppedge, L.S., dated June 26, 1995, and recorded in Plat File 5, at Page 325;
2. That parcel of 13.1050 acres conveyed unto Salem Run Associates, L.P., by Deed dated November 30, 1994, and recorded in Deed Book 1262, at Page 425; and
4. That parcel of 4.1179 acres described as Parcel F2B, Salem Run, conveyed unto Homes for Fredericksburg Limited Partnership by Deed dated November 13, 1995, and recorded in Deed Book 1335, at Page 62.

Leaving a tract of 79.6515 acres, more or less, as Additional Land.

Virginia, Spotsylvania County, to-wit:  
 In the Clerk's Office of the County and State aforesaid the 5th day of December, 1995, at 10:02 o'clock A. M., the foregoing writing was presented and admitted to record, together with the annexed certificate of acknowledgment.  
 The tax imposed by Section 98.54-1 in the amount of \$ \_\_\_\_\_ has been paid

Teste: Linda Jo Johnson, Clerk

RECORDED - DOCUMENTS  
 60-01-17 5-31-95  
 1995 NOV 21  
 501-1-1995-110



**FIRST AMENDMENT TO DECLARATION FOR  
SALEM RUN HOMEOWNERS ASSOCIATION, INC.**

This First Amendment to Declaration for Salem Run Homeowners Association, Inc., made this 27<sup>th</sup> day of September, 1996, by Salem Run Company, L.L.C., a Virginia limited liability company ("Declarant"), provides:

WHEREAS, by Declaration for Salem Run Homeowners Association, Inc. recorded on May 5, 1995, in the Clerk's office of the Circuit Court of Spotsylvania County in Deed Book 1339 at page 683 (the "Declaration"), the Declarant established the Declaration for Salem Run subdivision as described therein, and

WHEREAS, in Section 14.1 of Article 14 of the Declaration, the Declarant reserved the right to unilaterally amend any provision of the Declaration or any Supplementary Declaration in order to satisfy the requirement of any Government, Government Agency, Secondary Mortgage Agency or Mortgagee; and

WHEREAS, the Declarant desires hereby to amend the Declaration in order to satisfy the requirements of the Department of Veterans Affairs for Planned Unit Developments.

Now, therefore, the Declarant does hereby amend the Declaration as follows:

1. That subparagraph (iv) of Paragraph (d) Initial Assessment and Initial Capital Payment of Section 6.1

Post-It® Fax Note	7671	Date	12-4	# of pages	3
To	Kristal Fogg	From	Richard Trumbly		
Co./Dept		Co.			
Phone #		Phone #			
Fax #	373-2913	Fax #			

Determination of Common Expenses and Budget of Article VI be amended and restated as follows:

(d) Initial Assessment and Initial Capital Payment.

(iv) Each initial purchaser, other than the Declarant or a Builder, shall pay at settlement an "Initial Capital Payment" equal to \$100 for such purchaser's Lot to provide necessary working capital for the Association. Such funds may be used for any operational costs, certain prepaid items, initial equipment, supplies, organizational costs and other start-up costs, as the board of Directors may determine. Such funds shall not be used to pay or offset expenses incurred by the Declarant in the development of the Property.

2. That Paragraph (a) Special One-time Assessment of Section 6.3 Assessment Against Lots Owned by the Declarant and Builders Exemptions of Article VI shall be amended and restated as follows:

Section 6.3 Assessment Against Lots Owned by the Declarant and Builders Exemptions.

(a) Special One-time Assessment. The Builder if determined by the Declarant, shall make a one-time payment of One Hundred Fifty Dollars (\$150.00) per dwelling unit permitted under the Development plan with respect to each Lot. The foregoing sum shall be due upon conveyance of the lot by the Declarant.

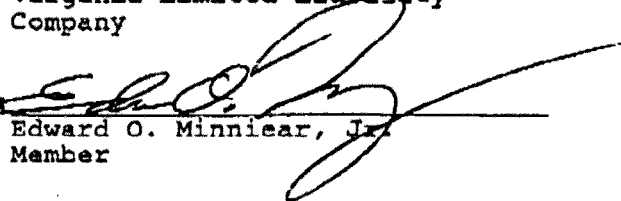
For so long as the Builders pay the one-time Assessment for the unoccupied Lots, the Builder or Declarant, as applicable, must maintain such Lot. In addition, during the Declarant Control Period, the Declarant and Builder must fund all operating budget deficits, as determined by the Board of Directors. The Declarant's and Builder's obligation under this Section does not include any expenses or reserve contributions that the association is unable to meet because of nonpayment of any Owner's Assessment or because of unusual or extraordinary expenses not part of the operating budget. The obligations of the Declarant and Builders under this section shall be a lien against the portion of the Property owned by the declarant or such Builder, as appropriate. Lots owned by the Declarant or a Builder shall be assessed at 25% of the annual

rate until initially occupied or conveyed to Owners other than the Declarant or a Builder. After such Lots or dwellings are initially occupied or conveyed to Owners other than the Declarant or a Builder, such Lots shall be assessed at the annual rate for similar Lots or dwellings not owned by the Declarant or a Builder.

In all other respects the Declaration is ratified and restated.

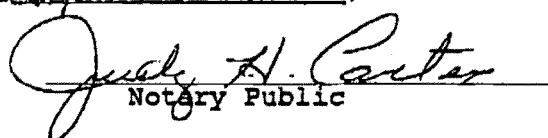
IN WITNESS WHEREOF, the undersigned has caused the Declaration to be signed pursuant to due and proper authority as of the date first set forth above.

SALEM RUN COMPANY, LLC  
a Virginia Limited Liability  
Company

By:   
Edward O. Minniear, Jr.  
Member

COMMONWEALTH OF VIRGINIA  
City/County of Fredericksburg, to-wit:

I, Judy H. Carter, a notary public in and for the jurisdiction aforesaid, do hereby certify that Edward O. Minniear, member of Salem Run Company, LLC, personally appeared before me and acknowledged the foregoing instrument this 27<sup>th</sup> day of September, 1996.

  
Notary Public

My Commission expires:  
6-30-99

**Design Document**  
**SALEM RUN HOA INC.**

## **OVERVIEW OF VILLAS OF SALEM RUN HOA REGULATIONS**

The “articles of incorporation” for the Villas of Salem Run HOA specify certain restrictions intended to protect the interests of all homeowners/HOA members. Highlights are listed below.

### **Article 8 Restrictions**

**Section 8.1** No non-residential use of property.

**Section 8.2** Restrictions related to:

- (a) Waste
- (b) Improper, offensive or unlawful use of property
- (c) Harmful discharges
- (d) Unreasonable loud noise
- (e) Obstruction of common areas
- (f) Temporary use of common areas must be approved by the Board
- (g) Posting of signs (political, yard sale, etc.)
- (h) Restriction related to when to set out trash/recycle containers.
- (i) Landscape plantings
- (j) Temporary structures such as tents, shacks, kennel runs, etc.
- (k) Removal of trees from lots or “no cut” designated area
- (l) Installation of TV or radio antennas/max size of satellite dish
- (m) Fencing; also see article 16
- (n) No commercial vehicles, trailers, campers, boats or derelict vehicles
- (o) No timesharing or short-term by multiple parties
- (p) Animals other than domestic pets
- (q) Exterior lighting
- (r) Design of mailboxes and newspaper tubes
- (s) No exterior clotheslines
- (t) Pools
- (u) Professional offices
- (v) Construction activities

### **Article 9 Architectural Review**

#### **Section 9.1**

- (a) All modifications to property and structure must be approved in advance by the Board

### **Article 12 Compliance & Fines**

**Section 12.1** Homeowners must comply with HOA regulations

- (f) HOA right to enter property (other than house) related to violations
- (h) Violations can result in a \$10 per day fine and lien on property

For complete information related to these topics, and others not mentioned above, refer to your copy of the homeowners' documents (notebook you received after closing on property)  
(July 2013 version)

**Insurance Dec Page**  
**SALEM RUN HOA INC.**



# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

12/13/2016

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

**IMPORTANT:** If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

<b>PRODUCER</b> Smith Agency Insurance and Financia 556 GARRISONVILLE ROAD SUITE 210 STAFFORD VA 22554-7826	<b>CONTACT NAME:</b> _____ <b>PHONE (A/C, No., Ext):</b> _____ <b>FAX (A/C, No):</b> _____ <b>E-MAIL ADDRESS:</b> _____													
	<table border="1"> <thead> <tr> <th>INSURER(S) AFFORDING COVERAGE</th> <th>NAIC #</th> </tr> </thead> <tbody> <tr> <td>INSURER A : NATIONWIDE MUTUAL INSURANCE COMPANY</td> <td>23787</td> </tr> <tr> <td>INSURER B : NATIONWIDE MUTUAL FIRE INSURANCE COMP</td> <td>23779</td> </tr> <tr> <td>INSURER C : UNITED STATES LIABILITY INSURANCE COMPAN</td> <td>25895</td> </tr> <tr> <td>INSURER D :</td> <td></td> </tr> <tr> <td>INSURER E :</td> <td></td> </tr> <tr> <td>INSURER F :</td> <td></td> </tr> </tbody> </table>	INSURER(S) AFFORDING COVERAGE	NAIC #	INSURER A : NATIONWIDE MUTUAL INSURANCE COMPANY	23787	INSURER B : NATIONWIDE MUTUAL FIRE INSURANCE COMP	23779	INSURER C : UNITED STATES LIABILITY INSURANCE COMPAN	25895	INSURER D :		INSURER E :		INSURER F :
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INSURER E :														
INSURER F :														
<b>INSURED</b>  SALEM RUN HOMEOWNERS ASSOCIATION 5698 HALIFAX CT FREDERICKSBURG VA 22407-7123														

**COVERAGES**      **CERTIFICATE NUMBER:**      **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<b>COMMERCIAL GENERAL LIABILITY</b> <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR  GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC OTHER: _____			ACP BPHM 3026738382	07/14/2016	07/14/2017	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 300,000 MED EXP (Any one person) \$ 5,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 2,000,000 PRODUCTS - COMP/OP AGG \$ 2,000,000 \$
	<b>AUTOMOBILE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
B	<input type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED _____ RETENTION \$ _____			ACP CAF 3026738382	07/14/2016	07/14/2017	EACH OCCURRENCE \$ 1,000,000 AGGREGATE \$ 1,000,000 \$
A	<b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b> ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N	N/A	ACP WC 3026738382	07/14/2016	07/14/2017	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$ 100,000 E.L. DISEASE - EA EMPLOYEE \$ 100,000 E.L. DISEASE - POLICY LIMIT \$ 500,000
C	<b>COMMUNITY ASSO PROFESSIONAL LIABILITY D&amp;O/EPL</b>			CAP 1556085A	03/15/2016	03/15/2017	CLAIM AND AGGREGATE 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

**CERTIFICATE HOLDER****CANCELLATION**

LANDMARC REAL ESTATE  
 P O BOX 7268  
 FREDERICKSBURG VA 22404

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

Elizabeth W. Corbin

*Elizabeth W. Corbin*

**Regular Meeting Minutes**  
**SALEM RUN HOA INC.**



November 1, 2016

Board of Directors Meeting

Meeting called to order at 6:10pm with proof of quorum

Meeting agenda approved- Shenan motions, Kathy seconds, all in favor

October 5, 2016 meeting minutes approved-Ashley motions, Shenan seconds, all in favor

No homeowner comments

No financials to review

Officer Reports-Kathy noted that there were several driveways that might need to be power washed. This will be revisited in the spring.

No management report

No old business to discuss

New Business:

-Action Lawns contract coming up for review. Will table for now and possibly get additional quotes to compare. Discussed edging on sidewalks and driveways being too wide and inquired about leaf removal

-2017/2018 Management Agreement was approved-Kathy motions, Shenan seconds, all in favor

-Audit proposal was approved-Ashley motions, Kathy seconds, all in favor

-2017 Budget approved-Shenan motions, Ashley seconds, all in favor. Slight raise in dues to help in increased expenses. Will send letter letting homeowners know with payment coupons

Enter into executive session at 7:24pm to discuss hearings- Kathy motions, Shenan seconds, all in favor

Exit executive session at 7:54pm-Shenan motions, Kathy seconds, all in favor

Decisions regarding hearings:

Case A-C 39483-6124/7213/7077: Property to assess \$10 a day not to exceed 90 days for mold/dirt on side of house and overgrowth/weeds in beds. Property to assess one time fee of \$50.00 for trash can not being stored properly (Shenan motions, Ashley seconds, all in favor)

Case D 38682-6148: No violation seen at this time (Ashley motions, Kathy seconds, all in favor)

Case E-F 44433-5424/6155: Property to assess \$10 a day not to exceed 90 days for various items being stored in the front of the house as well as overgrowth/weeds in beds. (Shenan motions, Kathy seconds, all in favor.

Case G 33530-7206: No violation seen at this time (Ashley motions, Shenan seconds, all in favor)

Meeting Adjourned At 7:58pm-Ashley motions, Kathy seconds, all in favor

HOA Meeting Notes 10/5/16

Meeting called to order at 6:00pm- Kathy motions, Ashley seconds, all in favor

Quorum preset

Agenda Approved- Kathy motions, Ashley seconds, all approved

Meeting Notes from July 6<sup>th</sup>, 2016 Approved- Ashley motions, Kathy seconds, all approved

Homeowner Comments:

- 11726 Collinwood New homeowner: received welcome packet, just wanted to introduce himself
- Landscaping issues:
  - o Bagger not being used in some areas causing debris to be thrown
  - o When baggers are used, clippings are being emptied at pond area on Abingdon Ct
  - o Down spouts are being chewed up by weed eating

Financials: Patrick reviews

Officer Reports:

- Kathy: Abingdon Ct-compliance issues are being addressed
- Ashley: Street light out on Abingdon between 11509 & 11511 (lamp #GC26)
- Shenan: Nothing to report

Management Report: Patrick reviews

- Inspections were completed 10/5/16 and letters were sent out
- If hearings are needed for compliance issues, will be held on November 1<sup>st</sup>

Old Business:

- Reviewed ARC Guidelines: Sections 3.5 to 3.6.1
- Will continue next sections at next meeting

New Business: Reviewed Compliance Due Process Procedure

Executive Session: Begins at 7:17pm-Ashley motions, Shenan seconds, all in favor

Exit Executive Session at 7:47pm- Ashley motions, Shenan seconds, all in favor

Meeting Adjourned at 7:53pm-Kathy motions, Ashley seconds, all in favor

HOA Meeting 7/6/16

Meeting called to order at 6:03pm

Quorum is present

Approval of Agenda: Kathy motions, Shenan seconds, all in favor

Approval of Meeting Minutes: Kathy motions, Ashley seconds, all in favor

- April 6, 2016 & June 22, 2016

Homeowner Comments

-Complaints regarding Abingdon Ct:

- Tractor trailer parked in driveway
- Truck half parked on driveway and lawn
- Soliciting (advised to call Sheriff's Office is sellers do not leave property as asked)

Patrick reviews the financials for first quarter March 31, 2016

Officer Reports

- Kathy: need updated listings of violations and inspections completed- to be done next week
- Ashley/Shenan: nothing to report

Management Report

- Patrick review street light outages; total of 10 lamps. Should be repaired within next two weeks

Old Management

- 2015 Final Audit
- Draft ARC Guidelines-will need to schedule meeting to review updates as of June 22, 2016

New Business

-Sperlonga Data and Analytics: Decided to table indefinitely. Shenan motions, Kathy seconds, all in favor

Executive Session begins 6:35pm: Kathy motions, Ashley seconds, all in favor

Exit Executive Session at 6:59pm: Ashley motions, Kathy seconds, all in favor

Acct #41907- waived late fee: Shenan motions, Ashley seconds, all in favor

Meeting adjourns at 7:00pm: Kathy motions, Shenan seconds, all in favor

HOA Special Meeting 6/22/16

Board of Directors Meeting

-6:02pm Meeting call to order

-Quorum present

-Agenda Approved: Ashley motions, Kathy seconds, all approved

Homeowner Comments:

- Abingdon Ct house: issue with trash cans and covered trailer
- Two guys with big dogs are allowing their dogs to defecate in yards-not from neighborhood
- Bald spots in lawn, lawn ornaments have gone missing-possibly stolen
- Mowers digging into lawn scalping several areas because of how they cut the grass
- Kids hanging out in Halifax Ct around 11-12 at night

Officer Reports: Nothing to discuss

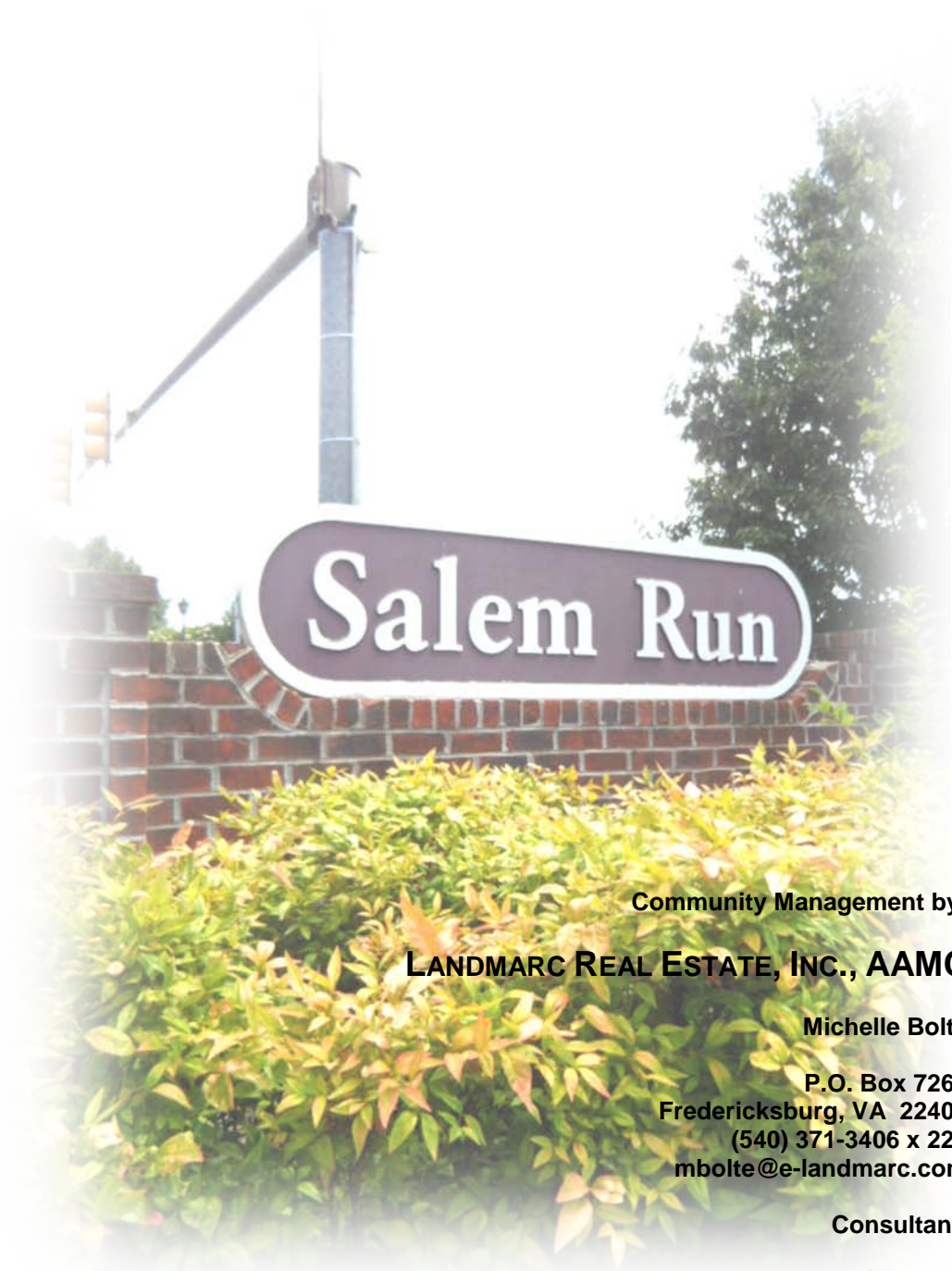
Unfinished Business:

- ARC Guidelines
  - o Will make effective January 1 2017
  - o Open discussion on items included in ARC Guidelines-review about half of the document and made revisions

Meeting Adjourned 7:30pm: Kathy motions, Shenan seconds, all in favor

**Reserve Study**  
**SALEM RUN HOA INC.**

# REPLACEMENT RESERVE REPORT FY 2016 SALEM RUN HOA



REPLACEMENT RESERVE REPORT FY 2016

SALEM RUN HOA

Community Management by:

**LANDMARC REAL ESTATE, INC., AAMC**

Michelle Bolte

P.O. Box 7268  
Fredericksburg, VA 22404  
(540) 371-3406 x 221  
mbolte@e-landmarc.com

Consultant:

**millerdodson** | Capital  
ASSOCIATES Reserve  
Consultants

929 West Street, Suite 310  
Annapolis, MD 21401  
410.268.0479  
800.850.2835

[www.mdareserves.com](http://www.mdareserves.com)

**millerdodson** | Capital  
ASSOCIATES Reserve  
Consultants

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# REPLACEMENT RESERVE REPORT

## SALEM RUN HOA

FREDERICKSBURG, VIRGINIA



**Description.** Salem Run HOA is located in Fredericksburg, Virginia. Constructed in 1995, the community consists of 696 single family homes and townhomes. The survey examined the common elements of the property, including:

- Perimeter fencing
- Storm water management system
- Asphalt trail
- Entrance signs

**Level of Service.** This study has been performed as a Level 2 Update with Site Visit/On-Site Review as defined under the National Reserve Study Standards that have been adopted by the Community Associations Institute. As such, the component inventory is based on the study that was performed in 2010 by Richard J. Schuetz, AIA. The inventory was adjusted to reflect changes as provided by the Community Manager or adjustments were made based on the site visit and visual inspection performed by the Analyst. The included fund status and funding plan have been developed from analysis of the adjusted inventory.

### Section A

#### Replacement Reserve Analysis

Executive Summary - A1  
General Information - A2  
Current Funding - A3  
Cash Flow Method Funding - A4  
Inflation Adjusted Funding - A5  
Comments - A6

### Section B

#### Replacement Reserve Inventory

Replacement Reserve Inventory  
General information - B1  
Replacement Reserve Inventory  
Comments - B2  
Schedule of Projected Replacements  
and Exclusions - B3

### Section C

#### Projected Annual Replacements

Projected Annual Replacements  
General Information - C1  
Calendar of  
Projected Annual Replacements - C2

### Section D

#### Condition Assessment

### Appendix

Accounting Summary - CF1  
Component Method - CM1  
  
Overview, Standard Terms, and Definitions  
Video Answers to Frequently Asked Questions



To aid in the understanding of this report and its concepts and practices, on our web site, we have developed [videos](#) addressing frequently asked topics. In addition, there are posted [links](#) covering a variety of subjects under the resources page of our web site at [mdareserves.com](http://mdareserves.com).

**Purpose.** The purpose of this Replacement Reserve Study is to provide Salem Run HOA (hereinafter called the Association) with an inventory of the common community facilities and infrastructure components that require periodic replacement. The Study includes a general view of the condition of these items and an effective financial plan to fund projected periodic replacements.

- **Inventory of Items Owned by the Association.** Section B lists the Projected Replacements of the commonly owned items that require periodic replacement using funding from Replacement Reserves. The Replacement Reserve Inventory also provides information about excluded items, which are items whose replacements are not scheduled for funding from Replacement Reserves.
- **Condition of Items Owned by the Association.** Section B includes our estimates of the normal economic life and the remaining economic life for the projected replacements. Section C provides a year-by-year listing of the projected replacements. Section D provides additional detail for items that are unique or deserving of attention because of their condition or the manner in which they have been treated in this study.
- **Financial Plan.** The Association has a fiduciary responsibility to protect the appearance, value, and safety of the property and it is therefore essential the Association have a financial plan that provides funding for the projected replacements. In conformance with American Institute of Certified Public Accountant guidelines, Section A, Replacement Reserve Analysis evaluates the current funding of Replacement Reserves as reported by the Association and recommends annual funding of Replacement Reserves by the Cash Flow Method. Section A, Replacement Reserve Analysis includes graphic and tabular presentations of the Association's current funding and the recommended funding based on the Cash Flow Method. An Executive Summary of these calculations is provided on Page A1. The alternative Component Method of funding is provided in the Appendix.

**Basis.** The data contained in this Replacement Reserve Study is based upon the following:

- The Request for Proposal submitted and executed by the Association.
- Miller - Dodson performed a visual evaluation on July 20, 2015 to determine a remaining useful life and replacement cost for the commonly owned elements of this facility.
- This study contains additional recommendations to address inflation for the Cash Flow Method only. For this recommendation, Miller - Dodson uses the Producers Price Index (PPI), which gauges inflation in manufacturing and construction. Please see page A5 for further details.

**To-Scale Drawings.** Site and building plans were not used in the development of this study, since this was a Level 2 Update. We recommend the Association assemble and maintain a library of site and building plans of the entire facility. Record drawings should be scanned into an electronic format for safe storage and ease of distribution. Upon request for a nominal fee, Miller - Dodson can provide scanning services.

**Current Funding.** This reserve study has been prepared for Fiscal Year 2016 covering the period from January 1, 2016 to December 31, 2016. The Replacement Reserves on deposit as of May 18, 2015 are reported to be \$27,178.27. The planned contribution for the fiscal year is \$5,865. This results in a Reserve Fund balance at the start of the fiscal year as follows:

May 18, 2015 balance	\$27,178.27
7 months contribution	\$3,421.25
Planned expenditures	\$0
FY 2016 opening balance	\$30,599.52

The balance and contribution figures have been supplied by the managing agent and confirmation or audit of these figures is beyond the scope of the study. For the purposes of this study, it is assumed that the annual contribution will be deposited at the end of each month.

**Acknowledgement.** Miller - Dodson Associates would like to acknowledge the assistance and input of the Community Manager, Ms. Michelle Bolte who provided very helpful insight into the current operations of the property and clarified the components to be included.

**Analyst's Credentials.** Mrs. Heather N. Naples holds a Bachelors Degree in Civil Engineering and a Masters Degree in Engineering Administration from Virginia Tech. A registered Professional Engineer, Mrs. Naples has experience in all phases of project design, contract administration, and inspection of public and private facilities. As an Engineer, she has completed multiple facilities engineering studies, life cycle cost studies, and analysis for repair versus replacement of facilities and systems. She is currently an Engineer and Reserve Specialist for Miller - Dodson Associates.

Respectfully submitted,



Heather Naples, RS, PE  
Reserve Specialist

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## EXECUTIVE SUMMARY

The Salem Run HOA Replacement Reserve Analysis uses the Cash Flow Method (CFM) to calculate Replacement Reserve funding for the periodic replacement of the 6 Projected Replacements identified in the Replacement Reserve Inventory.

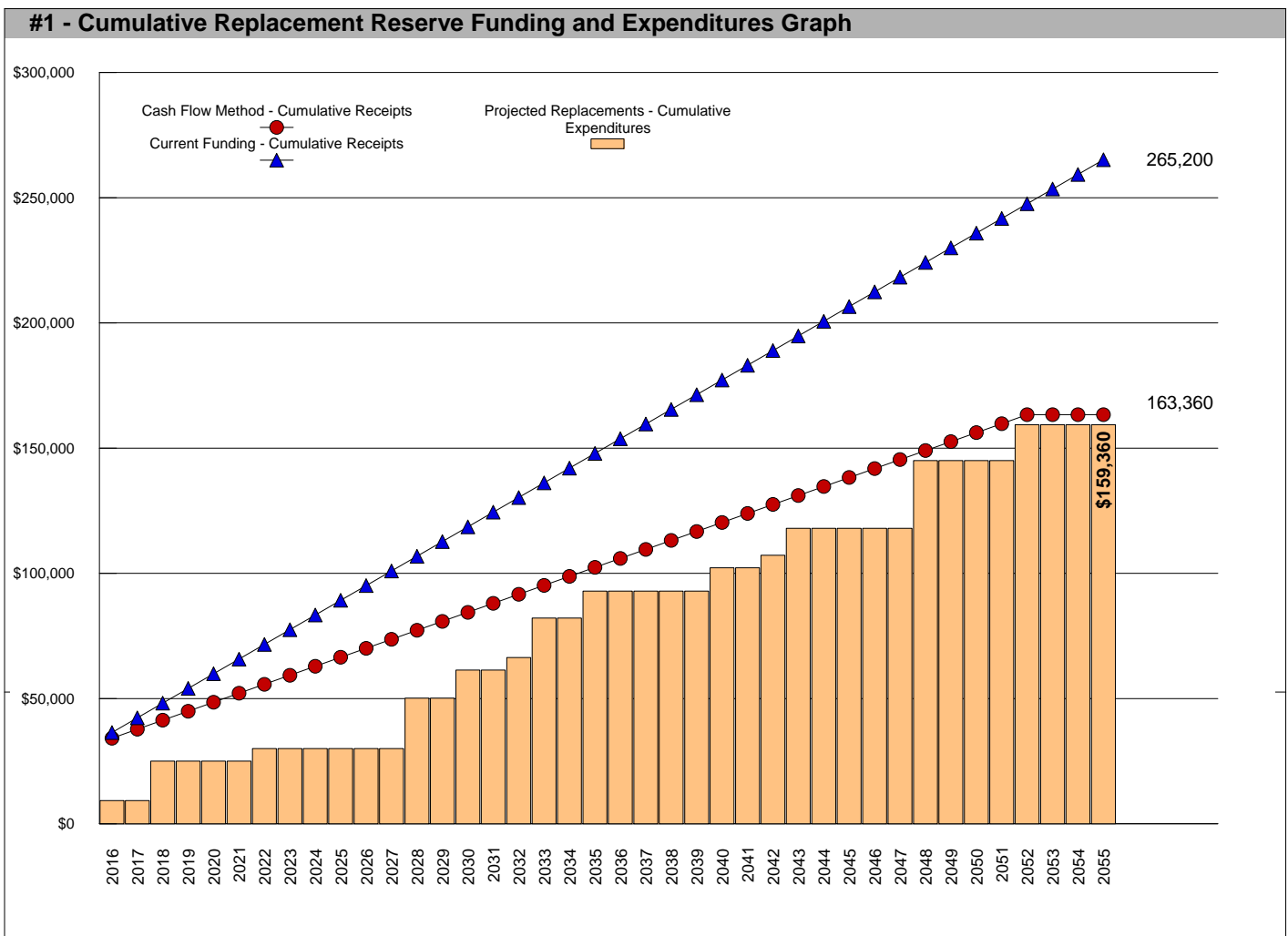
**\$3,590** RECOMMENDED REPLACEMENT RESERVE FUNDING FOR THE STUDY YEAR, 2016

\$0.43 Per unit (average), minimum monthly funding of Replacement Reserves

We recommend the Association adopt a Replacement Reserve Funding Plan based on the annual funding recommendation above. Inflation adjusted funding for subsequent years is shown on Page A5.

Salem Run HOA reports a Starting Balance of \$30,600 and Annual Funding totaling \$5,865.

Current funding is greater than the funding necessary for the \$159,360 of Projected Replacements scheduled in the Replacement Reserve Inventory over the 40-year Study Period. See Page A3 for more detailed information.



The Current Funding Objective as calculated by the Component Method (Fully Funded) is \$30,303 making the reserve account 101.0% funded. See the Appendix for more information on this method.

**REPLACEMENT RESERVE ANALYSIS - GENERAL INFORMATION**

The Salem Run HOA Replacement Reserve Analysis calculations of recommended funding of Replacement Reserves by the Cash Flow Method and the evaluation of the Current Funding are based upon the same Study Year, Study Period, Beginning Balance, Replacement Reserve Inventory and Level of Service.

**2016 | STUDY YEAR**

The Association reports that their accounting year begins on January 1, and the Study Year, the first year evaluated by the Replacement Reserve Analysis, begins on January 1, 2016.

**40 Years | STUDY PERIOD**

The Replacement Reserve Analysis evaluates the funding of Replacement Reserves over a 40-year Study Period.

**\$30,600 | STARTING BALANCE**

The Association reports Replacement Reserves on Deposit totaling \$30,600 at the start of the Study Year.

**Level Two | LEVEL OF SERVICE**

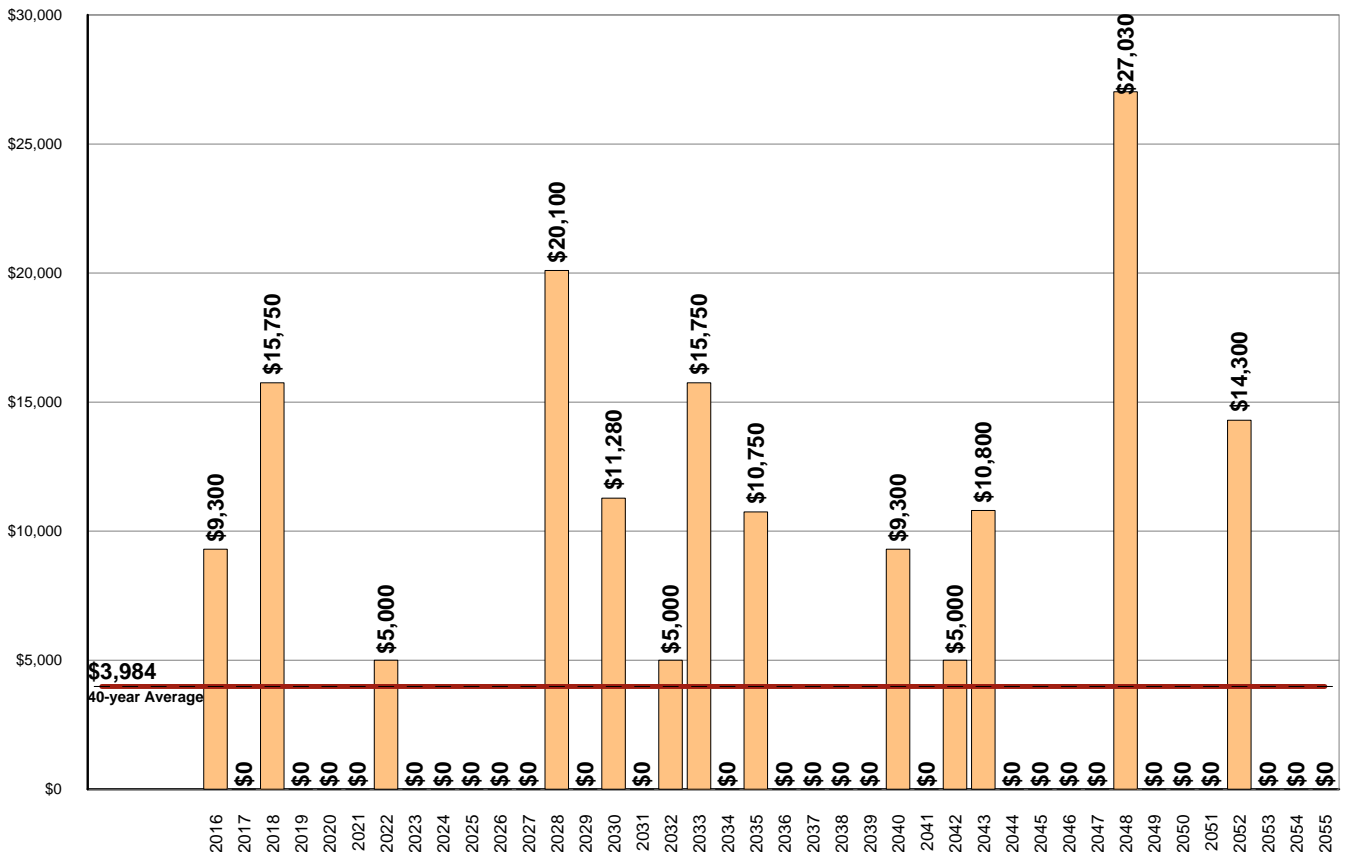
The Replacement Reserve Inventory has been developed in compliance with the National Reserve Study Standards for a Level Two Study, as defined by the Community Associations Institute (CAI).

**\$159,360 | REPLACEMENT RESERVE INVENTORY - PROJECTED REPLACEMENTS**

The Salem Run HOA Replacement Reserve Inventory identifies 6 items that will require periodic replacement, that are to be funded from Replacement Reserves. We estimate the cost of these replacements will be \$159,360 over the 40-year Study Period. The Projected Replacements are divided into 8 major categories starting on Page B3. Pages B1-B2 provide detailed information on the Replacement Reserve Inventory.

**#2 - Annual Expenditures for Projected Replacements Graph**

This graph shows annual expenditures for Projected Replacements over the 40-year Study Period. The red line shows the average annual expenditure of \$3,984. Section C provides a year by year Calendar of these expenditures.



## UPDATING

### UPDATING OF THE FUNDING PLAN

The Association has a responsibility to review the Funding Plan annually. The review should include a comparison and evaluation of actual reserve funding with recommended levels shown on Page A4 and A5. The Projected Replacements listed on Page C2 should be compared with any replacements accomplished and funded from Replacement Reserves. Discrepancies should be evaluated and if necessary, the Reserve Study should be updated or a new study commissioned. We recommend annual increases in replacement reserve funding to account for the impact of inflation. Inflation Adjusted Funding is discussed on Page A5.

### UPDATING OF THE REPLACEMENT RESERVE STUDY

At a minimum, the Replacement Reserve Study should be professionally updated every three to five years or after completion of a major replacement project. Updating should also be considered if during the annual review of the Funding Plan, discrepancies are noted between projected and actual reserve funding or replacement costs. Updating may also be necessary if there is a meaningful discrepancy between the actual inflation rate and the inflation rate used for the Inflation Adjusted Funding of Replacement Reserves on Page A5.

### ANNUAL EXPENDITURES AND CURRENT FUNDING

The annual expenditures that comprise the \$159,360 of Projected Expenditures over the 40-year Study Period and the impact of the Association continuing to fund Replacement Reserves at the current level are detailed in Table 3.

<b>#3 - Table of Annual Expenditures and Current Funding Data - Years 1 through 40</b>										
Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Starting Balance	\$30,600									
Projected Replacements	(\$9,300)		(\$15,750)				(\$5,000)			
Annual Deposit	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865
End of Year Balance	\$27,165	\$33,030	\$23,145	\$29,010	\$34,875	\$40,740	\$41,605	\$47,470	\$53,335	\$59,200
Cumulative Expenditures	(\$9,300)	(\$9,300)	(\$25,050)	(\$25,050)	(\$25,050)	(\$25,050)	(\$30,050)	(\$30,050)	(\$30,050)	(\$30,050)
Cumulative Receipts	\$36,465	\$42,330	\$48,195	\$54,060	\$59,925	\$65,790	\$71,655	\$77,520	\$83,385	\$89,250
Year	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Projected Replacements			(\$20,100)		(\$11,280)		(\$5,000)	(\$15,750)		(\$10,750)
Annual Deposit	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865
End of Year Balance	\$65,065	\$70,930	\$56,695	\$62,560	\$57,145	\$63,010	\$63,875	\$53,990	\$59,855	\$54,970
Cumulative Expenditures	(\$30,050)	(\$30,050)	(\$50,150)	(\$50,150)	(\$61,430)	(\$61,430)	(\$66,430)	(\$82,180)	(\$82,180)	(\$92,930)
Cumulative Receipts	\$95,115	\$100,980	\$106,845	\$112,710	\$118,575	\$124,440	\$130,305	\$136,170	\$142,035	\$147,900
Year	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Projected Replacements					(\$9,300)		(\$5,000)	(\$10,800)		
Annual Deposit	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865
End of Year Balance	\$60,835	\$66,700	\$72,565	\$78,430	\$74,995	\$80,860	\$81,725	\$76,790	\$82,655	\$88,520
Cumulative Expenditures	(\$92,930)	(\$92,930)	(\$92,930)	(\$92,930)	(\$102,230)	(\$102,230)	(\$107,230)	(\$118,030)	(\$118,030)	(\$118,030)
Cumulative Receipts	\$153,765	\$159,630	\$165,495	\$171,360	\$177,225	\$183,090	\$188,955	\$194,820	\$200,685	\$206,550
Year	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055
Projected Replacements			(\$27,030)				(\$14,300)			
Annual Deposit	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865	\$5,865
End of Year Balance	\$94,385	\$100,250	\$79,085	\$84,950	\$90,815	\$96,680	\$88,245	\$94,110	\$99,975	\$105,840
Cumulative Expenditures	(\$118,030)	(\$118,030)	(\$145,060)	(\$145,060)	(\$145,060)	(\$145,060)	(\$159,360)	(\$159,360)	(\$159,360)	(\$159,360)
Cumulative Receipts	\$212,415	\$218,280	\$224,145	\$230,010	\$235,875	\$241,740	\$247,605	\$253,470	\$259,335	\$265,200

### EVALUATION OF CURRENT FUNDING

The evaluation of Current Funding (Starting Balance of \$30,600 & annual funding of \$5,865), is done in today's dollars with no adjustments for inflation or interest earned on Replacement Reserves. The evaluation assumes Replacement Reserves will only be used for the 6 Projected Replacements identified in the Replacement Reserve Inventory and that the Association will continue Annual Funding of \$5,865 throughout the 40-year Study Period.

The Component Method (provided in the Appendix) is a little used Replacement Reserve funding methodology generally recognized for calculating MAXIMUM rational funding. The \$5,865 annual funding is approximately 188 percent of the \$3,117 Component Method recommended funding in 2016, the Study Year. Evaluation of the 6 Projected Replacements calculates an average annual expenditure over the next 40 years of \$3,984. Annual funding of \$5,865 is 147 percent of the average annual expenditure.

In summary, Current Funding as reported by the Association and outlined above, is greater than what is needed to provide timely and adequate funding for the \$159,360 of Projected Replacements scheduled in the Replacement Reserve Inventory over the 40-year Study Period.

### CASH FLOW METHOD FUNDING

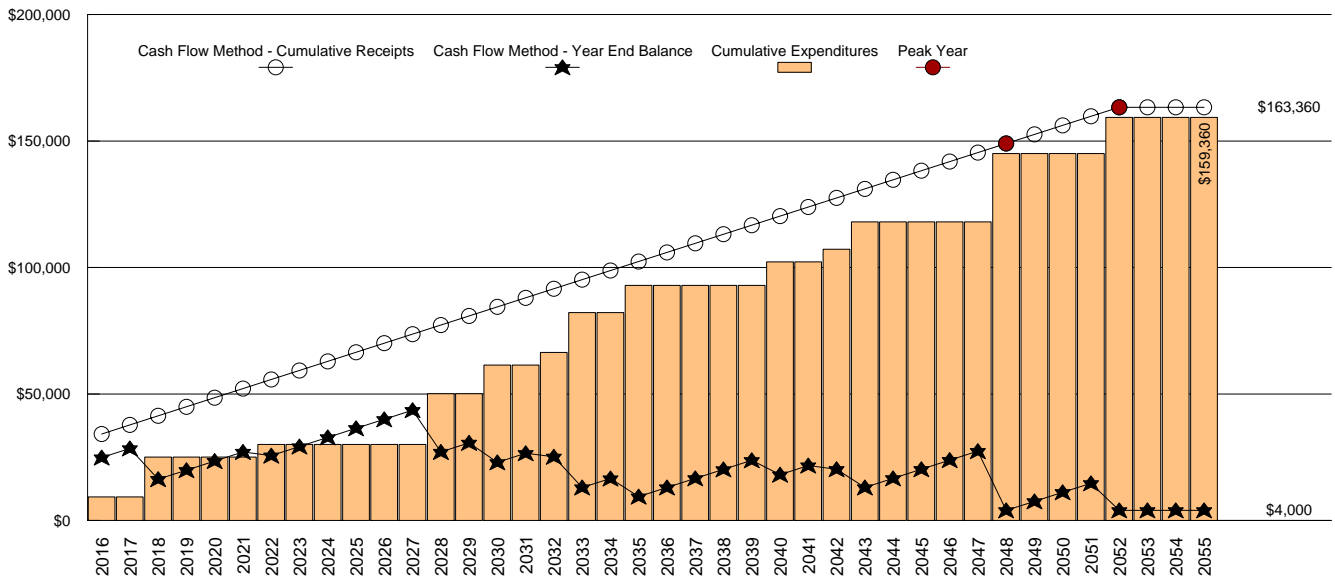
#### **\$3,590** RECOMMENDED REPLACEMENT RESERVE FUNDING FOR 2016

\$0.43 Per unit (average), minimum monthly funding of Replacement Reserves

Recommended Replacement Reserve Funding has been calculated using the Cash Flow Method (also called the Straight Line or Threshold Method). This method calculates a constant annual funding between peaks in cumulative expenditures, while maintaining a Minimum Balance (threshold) in the Peak Years.

- **Peak Years.** The First Peak Year occurs in 2048 with Replacement Reserves on Deposit dropping to the Minimum Balance after the completion of \$145,060 of replacements from 2016 to 2048. Recommended funding declines from \$3,590 in 2048 to \$3,575 in 2049. Peak Years are identified in Chart 4 and Table 5.
- **Minimum Balance.** The calculations assume a Minimum Balance of \$4,000 in Replacement Reserves. This is approx. 12 months of average expenditures based on the \$3,984, 40-year average annual expenditure.
- **Cash Flow Method Study Period.** Cash Flow Method calculates funding for \$159,360 of expenditures over the 40-year Study Period. It does not include funding for any projects beyond 2055 and in 2055, the end of year balance will always be the Minimum Balance.

**#4 - Cash Flow Method - Graph of Cumulative Receipts and Expenditures - Years 1 through 40**



**#5 - Cash Flow Method - Table of Receipts & Expenditures - Years 1 through 40**

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Starting Balance	\$30,600									
Projected Replacements	(\$9,300)		(\$15,750)				(\$5,000)			
Annual Deposit	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590
End of Year Balance	\$24,890	\$28,479	\$16,319	\$19,909	\$23,498	\$27,088	\$25,678	\$29,268	\$32,857	\$36,447
Cumulative Expenditures	\$9,300	\$9,300	\$25,050	\$25,050	\$25,050	\$25,050	\$30,050	\$30,050	\$30,050	\$30,050
Cumulative Receipts	\$34,190	\$37,779	\$41,369	\$44,959	\$48,548	\$52,138	\$55,728	\$59,318	\$62,907	\$66,497
Year	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Projected Replacements			(\$20,100)		(\$11,280)		(\$5,000)	(\$15,750)		(\$10,750)
Annual Deposit	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590
End of Year Balance	\$40,037	\$43,626	\$27,116	\$30,706	\$23,015	\$26,605	\$25,195	\$13,035	\$16,624	\$9,464
Cumulative Expenditures	(\$30,050)	(\$30,050)	(\$50,150)	(\$50,150)	(\$61,430)	(\$61,430)	(\$66,430)	(\$82,180)	(\$82,180)	(\$92,930)
Cumulative Receipts	\$70,087	\$73,676	\$77,266	\$80,856	\$84,445	\$88,035	\$91,625	\$95,215	\$98,804	\$102,394
Year	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Projected Replacements					(\$9,300)		(\$5,000)	(\$10,800)		
Annual Deposit	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590	\$3,590
End of Year Balance	\$13,054	\$16,643	\$20,233	\$23,823	\$18,112	\$21,702	\$20,292	\$13,082	\$16,671	\$20,261
Cumulative Expenditures	(\$92,930)	(\$92,930)	(\$92,930)	(\$92,930)	(\$102,230)	(\$102,230)	(\$107,230)	(\$118,030)	(\$118,030)	(\$118,030)
Cumulative Receipts	\$105,984	\$109,573	\$113,163	\$116,753	\$120,342	\$123,932	\$127,522	\$131,112	\$134,701	\$138,291
Year	2046	2047	1st Peak - 2048	2049	2050	2051	2nd Peak - 2052	2053	2054	2055
Projected Replacements			(\$27,030)				(\$14,300)			
Annual Deposit	\$3,590	\$3,590	\$3,590	\$3,575	\$3,575	\$3,575	\$3,575	\$4,000	\$4,000	\$4,000
End of Year Balance	\$23,851	\$27,440	\$4,000	\$7,575	\$11,150	\$14,725	\$4,000	\$4,000	\$4,000	\$4,000
Cumulative Expenditures	(\$118,030)	(\$118,030)	(\$145,060)	(\$145,060)	(\$145,060)	(\$145,060)	(\$159,360)	(\$159,360)	(\$159,360)	(\$159,360)
Cumulative Receipts	\$141,881	\$145,470	\$149,060	\$152,635	\$156,210	\$159,785	\$163,360	\$163,360	\$163,360	\$163,360

## INFLATION ADJUSTED FUNDING

The Cash Flow Method calculations on Page A4 have been done in today's dollars with no adjustment for inflation. At Miller + Dodson, we believe that long-term inflation forecasting is effective at demonstrating the power of compounding, not at calculating appropriate funding levels for Replacement Reserves. We have developed this proprietary model to estimate the short-term impact of inflation on Replacement Reserve funding.

### **\$3,590** 2016 - CASH FLOW METHOD RECOMMENDED FUNDING

The 2016 Study Year calculations have been made using current replacement costs (see Page B2), modified by the Analyst for any project specific conditions.

### **\$3,781** 2017 - INFLATION ADJUSTED FUNDING

A new analysis calculates 2017 funding based on three assumptions;

- Replacement Reserves on Deposit totaling \$24,890 on January 1, 2017.
- All 2016 Projected Replacements listed on Page C2 accomplished at a cost to Replacement Reserves less than \$9,300.
- Construction Cost Inflation of 4.50 percent in 2016.

The \$3,781 inflation adjusted funding in 2017 is a 5.32 percent increase over the non-inflation adjusted 2017 funding of \$3,590.

### **\$3,996** 2018 - INFLATION ADJUSTED FUNDING

A new analysis calculates 2018 funding based on three assumptions;

- Replacement Reserves on Deposit totaling \$28,670 on January 1, 2018.
- No Expenditures from Replacement Reserves in 2017.

- Construction Cost Inflation of 4.50 percent in 2017.

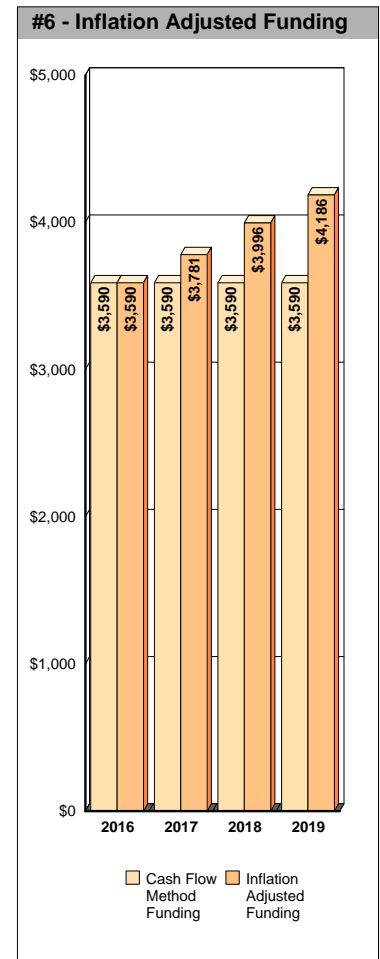
The \$3,996 inflation adjusted funding in 2018 is a 11.33 percent increase over the non-inflation adjusted 2018 funding of \$3,590.

### **\$4,186** 2019 - INFLATION ADJUSTED FUNDING

A new analysis calculates 2019 funding based on three assumptions;

- Replacement Reserves on Deposit totaling \$15,467 on January 1, 2019.
- All 2018 Projected Replacements listed on Page C2 accomplished at a cost to Replacement Reserves less than \$17,199.
- Construction Cost Inflation of 4.50 percent in 2018.

The \$4,186 inflation adjusted funding in 2019 is a 16.62 percent increase over the non-inflation adjusted funding of \$3,590.



## YEAR FIVE & BEYOND

The inflation adjusted funding calculations outlined above are not intended to be a substitute for periodic evaluation of common elements by an experienced Reserve Analyst. Industry Standards, lender requirements, and many state and local statutes require a Replacement Reserve Study be professionally updated every 3 to 5 years.

## INFLATION ADJUSTMENT

Prior to approving a budget based upon the 2017, 2018 and 2019 inflation adjusted funding calculations above, the 4.50 percent base rate of inflation used in our calculations should be compared to rates published by the Bureau of Labor Statistics. If there is a significant discrepancy (over 1 percent), contact Miller Dodson + Associates prior to using the Inflation Adjusted Funding.

## INTEREST ON RESERVES

The recommended funding calculations do not account for interest earned on Replacement Reserves.

In 2016, based on a 1.00 percent interest rate, we estimate the Association may earn \$277 on an average balance of \$27,745, \$268 on an average balance of \$26,780 in 2017, and \$221 on \$22,069 in 2018. The Association may elect to attribute 100 percent of the earned interest to Reserves, resulting in a reduction in the 2016 funding from \$3,590 to \$3,312 (a 7.73 percent reduction), \$3,781 to \$3,513 in 2017 (a 7.08 percent reduction), and \$3,996 to \$3,776 in 2018 (a 5.52 percent reduction).



## REPLACEMENT RESERVE STUDY - SUPPLEMENTAL COMMENTS

- Salem Run HOA has 696 units. The type of property is a home owner association.
- The Cash Flow Method calculates the minimum annual funding necessary to prevent Replacement Reserves from dropping below the Minimum Balance. Failure to fund at least the recommended levels may result in funding not being available for the Projected Replacements listed in the Replacement Reserve Inventory.
- The accuracy of the Replacement Reserve Analysis is dependent upon expenditures from Replacement Reserves being made ONLY for the 6 Projected Replacements specifically listed in the Replacement Reserve Inventory. The inclusion/exclusion of items from the Replacement Reserve Inventory is discussed on Page B1.

## REPLACEMENT RESERVE INVENTORY GENERAL INFORMATION

Salem Run HOA - Replacement Reserve Inventory identifies 43 items. Two types of items are identified, Projected Replacements and Excluded Items:

- **PROJECTED REPLACEMENTS.** 6 of the items are Projected Replacements and the periodic replacements of these items are scheduled for funding from Replacement Reserves. The Projected Replacements have an estimated one-time replacement cost of \$62,880. Replacements totaling \$118,030 are scheduled in the Replacement Reserve Inventory over the 40-year Study Period.

Projected Replacements are the replacement of commonly-owned physical assets that require periodic replacement and whose replacement is to be funded from Replacement Reserves.

- **EXCLUDED ITEMS.** 37 of the items are Excluded Items, and expenditures for these items are NOT scheduled for funding from Replacement Reserves. The accuracy of the calculations made in the Replacement Reserve Analysis is dependent on expenditures NOT being made for Excluded Items. The Excluded Items are listed in the Replacement Reserve Inventory to identify specific items and categories of items that are not to be funded from Replacement Reserves. There are multiple categories of items that are typically excluded from funding by Replacement Reserves, including but not limited to:

**Tax Code.** The United States Tax Code grants very favorable tax status to Replacement Reserves, conditioned on expenditures being made within certain guidelines. These guidelines typically exclude maintenance activities, minor repairs and capital improvements.

**Value.** 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. This exclusion should reflect Association policy on the administration of Replacement Reserves. If the Association has selected an alternative level, it will be noted in the Replacement Reserve Inventory - General Comments on Page B2.

**Long-lived Items.** Items that when properly maintained, can be assumed to have a life equal to the property as a whole, are typically excluded from the Replacement Reserve Inventory.

**Unit improvements.** Items owned by a single unit and where the items serve a single unit are generally assumed to be the responsibility of that unit, not the Association.

**Other non-common improvements.** Items owned by the local government, public and private utility companies, the United States Postal Service, Master Associations, state and local highway authorities, etc., may be installed on property that is owned by the Association. These types of items are generally not the responsibility of the Association and are excluded from the Replacement Reserve Inventory.

The rationale for the exclusion of an item from funding by Replacement Reserves is discussed in more detail in the 'Comments' sections of the Section B - Replacement Reserve Inventory.

- **CATEGORIES.** The 43 items included in the Salem Run HOA Replacement Reserve Inventory are divided into 8 major categories. Each category is printed on a separate page, Pages B3 to B9.
- **LEVEL OF SERVICE.** This Replacement Reserve Inventory has been developed in compliance with the standards established for a Level Two - Update (with site visit and on-site review), as defined by the National Reserve Study Standards, established in 1998 by Community Associations Institute, which states:

*Level II Studies are based entirely on the component inventory from a prior study. This information is adjusted to reflect changes to the inventory that are provided by the Association, and the quantities are adjusted accordingly from field measurement and/or quantity takeoffs from to-scale drawings that are made available to us. The condition of all components is ascertained from a site visit and the visual inspection of each component by the analyst. The Remaining Economic Life and replacement cost of components are provided based in part on these observations. The fund status and Funding Plan are derived from analysis of this data.*

## REPLACEMENT RESERVE INVENTORY - GENERAL INFORMATION (cont'd)

- **INVENTORY DATA.** Each of the 6 Projected Replacements listed in the Replacement Reserve Inventory includes the following data:

Item Number. The Item Number is assigned sequentially and is intended for identification purposes only.

Item Description. We have identified each item included in the Inventory. Additional information may be included in the Comments section at the bottom of each page of the Inventory.

Units. We have used standard abbreviations to identify the number of units including SF-square feet, LF-lineal feet, SY-square yard, LS-lump sum, EA-each, and PR-pair. Non-standard abbreviations are noted in the Comments section at the bottom of the page.

Number of Units. The methods used to develop the quantities are discussed in "Level of Service" above.

Unit Replacement Cost. We use four sources to develop the unit cost data shown in the Inventory; actual replacement cost data provided by the client, information provided by local contractors and suppliers, industry standard estimating manuals, and a cost database we have developed based upon our detailed interviews with contractors and service providers who are specialists in their respective lines of work.

Normal Economic Life (Yrs). The number of years that a new and properly installed item should be expected to remain in service.

Remaining Economic Life (Yrs). The estimated number of years before an item will need to be replaced. In "normal" conditions, this could be calculated by subtracting the age of the item from the Normal Economic Life of the item, but only rarely do physical assets age "normally". Some items may have longer or shorter lives depending on many factors such as environment, initial quality of the item, maintenance, etc.

Total Replacement Cost. This is calculated by multiplying the Unit Replacement Cost by the Number of Units.

Each of the 37 Excluded Items includes the Item Description, Units, and Number of Units. Many of the Excluded Items are listed as a 'Lump Sum' with a quantity of 1. For the Excluded Items, this indicates that all of the items identified by the 'Item Description' are excluded from funding by Replacement Reserves.

- **REVIEW OF EXPENDITURES.** This Replacement Reserve Study should be reviewed by an accounting professional representing the Association prior to implementation.
- **PARTIAL FUNDING.** Items may have been included in the Replacement Reserve Inventory at less than 100 percent of their full quantity and/or replacement cost. This is done on items that will never be replaced in their entirety, but which may require periodic replacements over an extended period of time. The assumptions that provide the basis for any partial funding are noted in the Comments section.
- **REMAINING ECONOMIC LIFE GREATER THAN 40 YEARS.** The calculations do not include funding for initial replacements beyond 40 years. These replacements are included in this Study for tracking and evaluation. They should be included for funding in future Studies, when they enter the 40-year window.

**SITE COMPONENTS**  
**PROJECTED REPLACEMENTS**

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST (\$)
1	Stockade fence, north boundary	ft	470	\$24.00	18	14	\$11,280
2	Decorative white fence, Salem Run Blvd	ft	430	\$25.00	30	19	\$10,750
3	Entrance signage (3 ea)	sf	90	\$120.00	15	12	\$10,800
4	Asphalt trail, resurface	sf	2,480	\$3.75	12	none	\$9,300
5	Stormwater drains & structures (10%)	unit	70	\$225.00	15	2	\$15,750
6	Dry pond concrete structures, allow	ls	1	\$5,000.00	10	6	\$5,000
SITE COMPONENTS - Replacement Costs - Subtotal							\$62,880

**SITE COMPONENTS**  
**COMMENTS**

- Entry signs are located at the entrance to the community and at both Village of Salem Run entrances.
- The wet pond is owned solely by the Greens of Salem Run.

**VALUATION EXCLUSIONS**

**EXCLUDED ITEMS**

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST (\$)
	Entrance sign lighting	ls	1				EXCLUDED
	Property identification signage	ls	1				EXCLUDED
	Miscellaneous signage	ls	1				EXCLUDED

**VALUATION EXCLUSIONS**

**COMMENTS**

- Valuation Exclusions. For ease of administration of the Replacement Reserves and to reflect accurately how Replacement Reserves are administered, items with a dollar value less than \$1,000.00 have not been scheduled for funding from Replacement Reserves. Examples of items excluded from funding by Replacement Reserves by this standard are listed above.
  
- The list above exemplifies exclusions by the cited standard(s) and is not intended to be comprehensive.

**LONG-LIFE EXCLUSIONS**

**EXCLUDED ITEMS**

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST (\$)
	Masonry features	ls	1				EXCLUDED

**LONG-LIFE EXCLUSIONS**

**COMMENTS**

- Long Life Exclusions. Components that when properly maintained, can be assumed to have a life equal to the property as a whole, are normally excluded from the Replacement Reserve Inventory. Examples of items excluded from funding by Replacement Reserves by this standard are listed above.
- Exterior masonry is generally assumed to have an unlimited economic life but periodic repointing is required and we have included this for funding in the Replacement Reserve Inventory.
- The list above exemplifies exclusions by the cited standard(s) and is not intended to be comprehensive.

**UNIT IMPROVEMENTS EXCLUSIONS**

**EXCLUDED ITEMS**

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST (\$)
	Domestic water pipes serving one unit	ls	1				EXCLUDED
	Sanitary sewers serving one unit	ls	1				EXCLUDED
	Electrical wiring serving one unit	ls	1				EXCLUDED
	Cable TV service serving one unit	ls	1				EXCLUDED
	Telephone service serving one unit	ls	1				EXCLUDED
	Gas service serving one unit	ls	1				EXCLUDED
	Driveway on an individual lot	ls	1				EXCLUDED
	Apron on an individual lot	ls	1				EXCLUDED
	Sidewalk on an individual lot	ls	1				EXCLUDED
	Stairs on an individual lot	ls	1				EXCLUDED
	Curb & gutter on an individual lot	ls	1				EXCLUDED
	Retaining wall on an individual lot	ls	1				EXCLUDED
	Fence on an individual lot	ls	1				EXCLUDED
	Unit exterior	ls	1				EXCLUDED
	Unit interior	ls	1				EXCLUDED
	Unit systems	ls	1				EXCLUDED

**UNIT IMPROVEMENTS EXCLUSIONS**

**COMMENTS**

- Unit improvement Exclusions. We understand that the elements of the project that relate to a single unit are the responsibility of that unit owner. Examples of items excluded from funding by Replacement Reserves by this standard are listed above.
- The list above exemplifies exclusions by the cited standard(s) and is not intended to be comprehensive.

**UTILITY EXCLUSIONS**

**EXCLUDED ITEMS**

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST (\$)
	Primary electric feeds	ls	1				EXCLUDED
	Electric transformers	ls	1				EXCLUDED
	Cable TV systems and structures	ls	1				EXCLUDED
	Telephone cables and structures	ls	1				EXCLUDED
	Site lighting	ls	1				EXCLUDED
	Gas mains and meters	ls	1				EXCLUDED
	Water mains and meters	ls	1				EXCLUDED
	Sanitary sewers	ls	1				EXCLUDED

**UTILITY EXCLUSIONS**

**COMMENTS**

- Utility Exclusions. Many improvements owned by utility companies are on property owned by the Association. We have assumed that repair, maintenance, and replacements of these components will be done at the expense of the appropriate utility company. Examples of items excluded from funding Replacement Reserves by this standard are listed above.
  
- The list above exemplifies exclusions by the cited standard(s) and is not intended to be comprehensive.



**MAINTENANCE AND REPAIR EXCLUSIONS**

**EXCLUDED ITEMS**

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST (\$)
	Janitorial service	ls	1				EXCLUDED
	Repair services	ls	1				EXCLUDED
	Partial replacements	ls	1				EXCLUDED
	Capital improvements	ls	1				EXCLUDED
	Exterior painting	ls	1				EXCLUDED

**MAINTENANCE AND REPAIR EXCLUSIONS**

**COMMENTS**

- Maintenance activities, one-time-only repairs, and capital improvements. These activities are NOT appropriately funded from Replacement Reserves. The inclusion of such component in the Replacement Reserve Inventory could jeopardize the special tax status of ALL Replacement Reserves, exposing the Association to significant tax liabilities. We recommend that the Board of Directors discuss these exclusions and Revenue Ruling 75-370 with a Certified Public Accountant.
- Examples of items excluded from funding by Replacement Reserves by this standard are listed above.
- The list above exemplifies exclusions by the cited standard(s) and is not intended to be comprehensive.

**GOVERNMENT EXCLUSIONS**

**EXCLUDED ITEMS**

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST (\$)
	Government, roadways & parking	ls	1				EXCLUDED
	Government, sidewalks & curbs	ls	1				EXCLUDED
	Government, lighting	ls	1				EXCLUDED
	Government, stormwater mgmt.	ls	1				EXCLUDED

**GOVERNMENT EXCLUSIONS**

**COMMENTS**

- Government Exclusions. We have assumed that some of the improvements installed on property owned by the Association will be maintained by the state, county, or local government, or other association or other responsible entity. Examples of items excluded from funding by Replacement Reserves by this standard are listed above.
- Excluded right-of-ways, including all roads within the community, and adjacent properties.
- The list above exemplifies exclusions by the cited standard(s) and is not intended to be comprehensive.

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## PROJECTED ANNUAL REPLACEMENTS GENERAL INFORMATION

CALENDAR OF ANNUAL REPLACEMENTS. The 6 Projected Replacements in the Salem Run HOA Replacement Reserve Inventory whose replacement is scheduled to be funded from Replacement Reserves are broken down on a year-by-year basis, beginning on Page C2.

### REPLACEMENT RESERVE ANALYSIS AND INVENTORY POLICIES, PROCEDURES, AND ADMINISTRATION

- **REVISIONS.** Revisions will be made to the Replacement Reserve Analysis and Replacement Reserve Inventory in accordance with the written instructions of the Board of Directors. No additional charge is incurred for the first revision, if requested in writing within three months of the date of the Replacement Reserve Study. It is our policy to provide revisions in electronic (Adobe PDF) format only.
- **TAX CODE.** The United States Tax Code grants favorable tax status to a common interest development (CID) meeting certain guidelines for their Replacement Reserve. If a CID files their taxes as a 'Corporation' on Form 1120 (IRC Section 277), these guidelines typically require maintenance activities, partial replacements, minor replacements, capital improvements, and one-time only replacements to be excluded from Reserves. A CID cannot co-mingle planning for maintenance activities with capital replacement activities in the Reserves (Revenue Ruling 75-370). Funds for maintenance activities and capital replacements activities must be held in separate accounts. If a CID files taxes as an "Exempt Homeowners Association" using Form 1120H (IRC Section 528), the CID does not have to segregate these activities. However, because the CID may elect to change their method of filing from year to year within the Study Period, we advise using the more restrictive approach. We further recommend that the CID consult with their Accountant and consider creating separate and independent accounts and reserves for large maintenance items, such as painting.
- **CONFLICT OF INTEREST.** Neither Miller - Dodson Associates nor the Reserve Analyst has any prior or existing relationship with this Association which would represent a real or perceived conflict of interest.
- **RELIANCE ON DATA PROVIDED BY THE CLIENT.** Information provided by an official representative of the Association regarding financial, physical conditions, quality, or historical issues is deemed reliable.
- **INTENT.** This Replacement Reserve Study is a reflection of the information provided by the Association and the visual evaluations of the Analyst. It has been prepared for the sole use of the Association and is not for the purpose of performing an audit, quality/forensic analyses, or background checks of historical records.
- **PREVIOUS REPLACEMENTS.** Information provided to Miller - Dodson Associates regarding prior replacements is considered to be accurate and reliable. Our visual evaluation is not a project audit or quality inspection.
- **EXPERIENCE WITH FUTURE REPLACEMENTS.** The Calendar of Annual Projected Replacements, lists replacements we have projected to occur over the next thirty years, begins on Page C2. Actual experience in replacing the items may differ significantly from the cost estimates and time frames shown because of conditions beyond our control. These differences may be caused by maintenance practices, inflation, variations in pricing and market conditions, future technological developments, regulatory actions, acts of God, and luck. Some items may function normally during our visual evaluation and then fail without notice.
- **REVIEW OF THE REPLACEMENT RESERVE STUDY.** For this study to be effective, it should be reviewed by the Salem Run HOA Board of Directors, those responsible for the management of the items included in the Replacement Reserve Inventory, and the accounting professionals employed by the Association.

**PROJECTED REPLACEMENTS - YEARS ONE TO FIFTEEN**

Item	2016 - STUDY YEAR	\$
4	Asphalt trail, resurface	\$9,300
Total Scheduled Replacements		\$9,300

Item	2017 - YEAR 2	\$
No Scheduled Replacements		

Item	2018 - YEAR 3	\$
5	Stormwater drains & structui	\$15,750
Total Scheduled Replacements		\$15,750

Item	2019 - YEAR 4	\$
No Scheduled Replacements		

Item	2020 - YEAR 5	\$
No Scheduled Replacements		

Item	2021 - YEAR 6	\$
No Scheduled Replacements		

Item	2022 - YEAR 7	\$
6	Dry pond concrete structure:	\$5,000
Total Scheduled Replacements		\$5,000

Item	2023 - YEAR 8	\$
No Scheduled Replacements		

Item	2024 - YEAR 9	\$
No Scheduled Replacements		

Item	2025 - YEAR 10	\$
No Scheduled Replacements		

Item	2026 - YEAR 11	\$
No Scheduled Replacements		

Item	2027 - YEAR 12	\$
No Scheduled Replacements		

Item	2028 - YEAR 13	\$
3	Entrance signage (3 ea)	\$10,800
4	Asphalt trail, resurface	\$9,300
Total Scheduled Replacements		\$20,100

Item	2029 - YEAR 14	\$
No Scheduled Replacements		

Item	2030 - YEAR 15	\$
1	Stockade fence, north bound	\$11,280
Total Scheduled Replacements		\$11,280

**PROJECTED REPLACEMENTS - YEARS SIXTEEN TO THIRTY**

Item	2031 - YEAR 16	\$
No Scheduled Replacements		

Item	2032 - YEAR 17	\$
6	Dry pond concrete structure:	\$5,000
Total Scheduled Replacements		\$5,000

Item	2033 - YEAR 18	\$
5	Stormwater drains & structui	\$15,750
Total Scheduled Replacements		\$15,750

Item	2034 - YEAR 19	\$
No Scheduled Replacements		

Item	2035 - YEAR 20	\$
2	Decorative white fence, Sale	\$10,750
Total Scheduled Replacements		\$10,750

Item	2036 - YEAR 21	\$
No Scheduled Replacements		

Item	2037 - YEAR 22	\$
No Scheduled Replacements		

Item	2038 - YEAR 23	\$
No Scheduled Replacements		

Item	2039 - YEAR 24	\$
No Scheduled Replacements		

Item	2040 - YEAR 25	\$
4	Asphalt trail, resurface	\$9,300
Total Scheduled Replacements		\$9,300

Item	2041 - YEAR 26	\$
No Scheduled Replacements		

Item	2042 - YEAR 27	\$
6	Dry pond concrete structure:	\$5,000
Total Scheduled Replacements		\$5,000

Item	2043 - YEAR 28	\$
3	Entrance signage (3 ea)	\$10,800
Total Scheduled Replacements		\$10,800

Item	2044 - YEAR 29	\$
No Scheduled Replacements		

Item	2045 - YEAR 30	\$
No Scheduled Replacements		

**PROJECTED REPLACEMENTS - YEARS THIRTY-ONE TO FORTY-FIVE**

Item	2046 - YEAR 31	\$
No Scheduled Replacements		

Item	2047 - YEAR 32	\$
No Scheduled Replacements		

Item	2048 - YEAR 33	\$
1	Stockade fence, north bound	\$11,280
5	Stormwater drains & structu	\$15,750
Total Scheduled Replacements		\$27,030

Item	2049 - YEAR 34	\$
No Scheduled Replacements		

Item	2050 - YEAR 35	\$
No Scheduled Replacements		

Item	2051 - YEAR 36	\$
No Scheduled Replacements		

Item	2052 - YEAR 37	\$
4	Asphalt trail, resurface	\$9,300
6	Dry pond concrete structure:	\$5,000
Total Scheduled Replacements		\$14,300

Item	2053 - YEAR 38	\$
No Scheduled Replacements		

Item	2054 - YEAR 39	\$
No Scheduled Replacements		

Item	2055 - YEAR 40	\$
No Scheduled Replacements		

Item	2056 (beyond Study Period)	\$
No Scheduled Replacements		

Item	2057 (beyond Study Period)	\$
No Scheduled Replacements		

Item	2058 (beyond Study Period)	\$
3	Entrance signage (3 ea)	\$10,800
Total Scheduled Replacements		\$10,800

Item	2059 (beyond Study Period)	\$
No Scheduled Replacements		

Item	2060 (beyond Study Period)	\$
No Scheduled Replacements		

## CONDITION ASSESSMENT

**General Comments.** Miller - Dodson Associates conducted a Reserve Study at Salem Run HOA in July 2015. Salem Run HOA is in generally good condition for a community constructed in 1995. A review of the Replacement Reserve Inventory will show that we are anticipating most of the components achieving their normal economic lives.

The following comments pertain to the larger, more significant components in the Replacement Reserve Inventory and to those items that are unique or deserving of attention because of their condition or the manner in which they have been treated in the Replacement Reserve Analysis or Inventory.

### General Condition Statements.

**Excellent.** 100% to 90% of Normal Economic Life expected, with no appreciable wear or defects.

**Good.** 90% to 60% of Normal Economic Life expected, minor wear or cosmetic defects found. Normal maintenance should be expected. If performed properly, normal maintenance may increase the useful life of a component. Otherwise, the component is wearing normally.

**Fair.** 60% to 30% of Normal Economic Life expected, moderate wear with defects found. Repair actions should be taken to extend the life of the component or to correct repairable defects and distress. Otherwise, the component is wearing normally.

**Marginal.** 30% to 10% of Normal Economic Life expected, with moderate to significant wear or distress found. Repair actions are expected to be cost effective for localized issues, but normal wear and use are evident. The component is reaching the end of the Normal Economic Life.

**Poor.** 10% to 0% of Normal Economic Life expected, with significant distress and wear. Left unattended, additional damage to underlying structures is likely to occur. Further maintenance is unlikely to be cost effective.

## SITE COMPONENTS

**Entry Monument and Signage.** The Association maintains an entry monument at the intersection of Salem Run Blvd and Salem Church Rd and two entry signs for the Villas of Salem Run. All other Salem Run signs are owned by individual Associations within the Salem Run community.

The entry monument is made of brick and is in good condition, with no observed open masonry joints or loose or broken masonry units. The monument holds a 2-sided sign made of synthetic material that is expected to have a useful life of 10 to 15 years.





We recommend repointing and replacement of defective areas of the masonry as needed. The Association may want to consider applying a coat of Siloxane or other appropriate breathable sealant to mitigate water penetration and degradation of the masonry work. For additional information, please see the appropriate links on our web site at <http://mdareserves.com/resources/links/building-exterior>.

The 2 entrance signs are made of the same type of foam board material as the entrance monument sign and are in good condition, with no damaged areas or visible weathering. These signs appear to have been replaced since the 2010 Reserve Study. In order to keep the monument fresh and appealing, we recommend replacement every 10 to 15 years. The signs are mounted on vinyl posts.



**Fencing.** The Association maintains wood and vinyl fencing that is in generally good condition. The wood fence is located at Halifax Court and functions as a boundary separating the Villas from the Apartments. The vinyl fence is a decorative fence that runs along Salem Run Blvd.

Fencing systems have a large number of configurations and finishes that can usually be repaired as a maintenance activity by replacing individual components as they become damaged or weathered.





Protection from string machine damage during lawn maintenance can extend the useful life of some fence types. Protection from this type of damage is typically provided by applying herbicides around post bases or installing protective sheathing.

Pressure treated wood fencing should be cleaned and sealed every year or two. Typically the least cost fencing option, this type of fence can last 15 to 20 years if maintained properly. The wood fencing appears to have been replaced since the 2010 Reserve Study and is structurally stable. We noted a few boards that have been replaced and/or fence structure enhanced by additional bracing.

Vinyl fencing made of 100% virgin material can last 30 to 35 years, and periodic cleaning will keep the fence looking attractive. Vinyl components with ticker walls can provide a longer useful life.

For more information on fencing, visit our [website link](#) to the American Fence Association.

**Asphalt Pavement.** The Association is responsible for the path leading from the end of Abington Court around the dry pond to Salem Run townhomes. This path contains 2,480 square feet of asphalt. Full replacement is recommended for FY 2016.

All roadways are maintained by the City, County, or other municipality. The asphalt trail is in poor condition, with wide cracking and significant distress in many locations including edge raveling.



Asphalt paths are typically constructed on native soil. As a result, defects can begin to develop in a few years, leading to costly repairs or early replacement. Additionally, paths typically do not have proper edge confinement and support resulting in longitudinal cracking along the edges of the path. Compacted soil or gravel can mitigate this problem. Lastly, tree root damage is a common issue with asphalt paths, and some communities have had success with a process called root trimming.

As a rule of thumb, asphalt should be overlaid when approximately 5% of the surface area is cracked or otherwise deteriorated. The normal service life of asphalt trails is 12 to 16 years.

In order to maintain the condition of the pavement throughout the community and to ensure the longest life of the asphalt, we recommend a systematic and comprehensive maintenance program that includes:

- **Crack Repair.** All cracks should be repaired with an appropriate compound to prevent water infiltration through the asphalt into the base. This repair should be done annually. Crack repair is normally considered a maintenance activity and is not funded from Reserves. Areas of extensive cracking or deterioration that cannot be made watertight should be cut out and patched.
- **Seal Coating.** The asphalt should be seal coated every five to seven years. For this maintenance, activity to be effective in extending the life of the asphalt, cleaning and crack repair should be performed first.

The pricing used is based on recent contracts for a full mill and two-inch overlay, which reflects the current local market for this work.

For seal coating, several different products are available. The older, more traditional seal coating products are simply paints. They coat the surface of the asphalt and they are minimally effective. However, the newer coating materials, such as those from Total Asphalt Management, Asphalt Restoration Technologies, Inc., and others, are penetrating. They are engineered, so to speak, to 'remoisturize' the pavement. Asphalt pavement is intended to be flexible. Over time, the volatile chemicals in the pavement dry, the pavement becomes brittle, and degradation follows in the forms of cracking and potholes. Remoisturizing the pavement can return its flexibility and extend the life of the pavement.

Lastly, the resource links provided on our website may provide insight into the general terms and concerns, including maintenance related advantages and disadvantages, which may help the Association better manage the asphalt pavements throughout the community: <http://mdareserves.com/resources/links/site-components>.

**Storm Water Drains and Structures.** The Association is responsible for the maintenance of the collection system and underground utility lines, including the storm water management pipes. Engineering drawings were not used in the determination of these underground components. Instead, we have provided an estimate of the approximate replacement costs based on our experience with other facilities of similar size and configuration and using the previous reserve study as a guide. The inspection and evaluation of underground lines and structures is beyond the scope of work for this study.



**Storm Water Ponds.** The community is served by several storm water ponds, 2 of which are owned and maintained by Salem Run HOA. Note that the retention (wet) pond is owned by the Greens of Salem Run and is not included in the Replacement Reserve Inventory. The 2 included detention ponds are located at the end of Abington Court and behind the homes on Collinwood.



Please note that the periodic removal of overgrown vegetation from the pond is considered a maintenance activity and has not been reserved for or included in this study. We have included an allowance to repair or replace the concrete components of the ponds every 10 years as needed.

This Condition Assessment is based upon our visual survey of the property. The sole purpose of the visual survey was an evaluation of the common elements of the property to ascertain the remaining useful life and the replacement costs of these common elements. Our evaluation assumed that all components met building code requirements in force at the time of construction. Our visual survey was conducted with care by experienced persons, but no warranty or guarantee is expressed or implied.

End of Condition Assessment

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## CASH FLOW METHOD ACCOUNTING SUMMARY

This Salem Run HOA - Cash Flow Method Accounting Summary is an attachment to the Salem Run HOA - Replacement Reserve Study dated July 24, 2015 and is for use by accounting and reserve professionals experienced in Association funding and accounting principles. This Summary consists of four reports, the 2016, 2017, and 2018 Cash Flow Method Category Funding Reports (3) and a Three-Year Replacement Funding Report.

- CASH FLOW METHOD CATEGORY FUNDING REPORT, 2016, 2017, and 2018. Each of the 6 Projected Replacements listed in the Salem Run HOA Replacement Reserve Inventory has been assigned to one of 1 categories. The following information is summarized by category in each report:
  - Normal Economic Life and Remaining Economic Life of the Projected Replacements.
  - Cost of all Scheduled Replacements in each category.
  - Replacement Reserves on Deposit allocated to the category at the beginning and end of the report period.
  - Cost of Projected Replacements in the report period.
  - Recommended Replacement Reserve Funding allocated to the category during the report period as calculated by the Cash Flow Method.
- THREE-YEAR REPLACEMENT FUNDING REPORT. This report details the allocation of the \$30,600 Beginning Balance (at the start of the Study Year) and the \$10,769 of additional Replacement Reserve Funding in 2016 through 2018 (as calculated in the Replacement Reserve Analysis) to each of the 6 Projected Replacements listed in the Replacement Reserve Inventory. These allocations have been made using Chronological Allocation, a method developed by Miller Dodson Associates, Inc., and discussed below. The calculated data includes:
  - Identification and estimated cost of each Projected Replacement scheduled in years 2016 through 2018.
  - Allocation of the \$30,600 Beginning Balance to the Projected Replacements by Chronological Allocation.
  - Allocation of the \$10,769 of additional Replacement Reserve Funding recommended in the Replacement Reserve Analysis in years 2016 through 2018, by Chronological Allocation.
- CHRONOLOGICAL ALLOCATION. Chronological Allocation assigns Replacement Reserves to Projected Replacements on a "first come, first serve" basis in keeping with the basic philosophy of the Cash Flow Method. The Chronological Allocation methodology is outlined below.
  - The first step is the allocation of the \$30,600 Beginning Balance to the Projected Replacements in the Study Year. Remaining unallocated funds are next allocated to the Projected Replacements in subsequent years in chronological order until the total of Projected Replacements in the next year is greater than the unallocated funds. Projected Replacements in this year are partially funded with each replacement receiving percentage funding. The percentage of funding is calculated by dividing the unallocated funds by the total of Projected Replacements in the partially funded year.

At Salem Run HOA the Beginning Balance funds all Scheduled Replacements in the Study Year through 2027 and provides partial funding (3%) of replacements scheduled in 2028.
  - The next step is the allocation of the \$3,590 of 2016 Cash Flow Method Reserve Funding calculated in the Replacement Reserve Analysis. These funds are first allocated to fund the partially funded Projected Replacements and then to subsequent years in chronological order as outlined above.

At Salem Run HOA the Beginning Balance and the 2016 Replacement Reserve Funding, funds replacements through 2027 and partial funds (20.6%) replacements in 2028.
  - Allocations of the 2017 and 2018 Reserve Funding are done using the same methodology.
  - The Three-Year Replacement Funding Report details component by component allocations made by Chronological Allocation.

### 2016 - CASH FLOW METHOD CATEGORY FUNDING REPORT

Each of the 6 Projected Replacements included in the Salem Run HOA Replacement Reserve Inventory has been assigned to one of the 1 categories listed in TABLE CF1 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- A Beginning Balance of \$30,600 as of the first day of the Study Year, January 1, 2016.
- Total reserve funding (including the Beginning Balance) of \$34,190 in the Study Year.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2016 being accomplished in 2016 at a cost of \$9,300.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2016 - CASH FLOW METHOD CATEGORY FUNDING - TABLE CF1								
CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2016 BEGINNING BALANCE	2016 RESERVE FUNDING	2016 PROJECTED REPLACEMENTS	2016 END OF YEAR BALANCE	
SITE COMPONENTS	10 to 30 years	0 to 19 years	\$62,880	\$30,600	\$3,590	(\$9,300)	\$24,890	

### 2017 - CASH FLOW METHOD CATEGORY FUNDING REPORT

Each of the 6 Projected Replacements included in the Salem Run HOA Replacement Reserve Inventory has been assigned to one of the 1 categories listed in TABLE CF2 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling \$24,890 on January 1, 2017.
- Total reserve funding (including the Beginning Balance) of \$37,779 from 2016 through 2017.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2017 - CASH FLOW METHOD CATEGORY FUNDING - TABLE CF2								
CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2017 BEGINNING BALANCE	2017 RESERVE FUNDING	2017 PROJECTED REPLACEMENTS	2017 END OF YEAR BALANCE	
SITE COMPONENTS	10 to 30 years	1 to 18 years	\$62,880	\$24,890	\$3,590		\$28,479	



### 2018 - CASH FLOW METHOD CATEGORY FUNDING REPORT

Each of the 6 Projected Replacements included in the Salem Run HOA Replacement Reserve Inventory has been assigned to one of the 1 categories listed in TABLE CF3 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling \$28,479 on January 1, 2018.
- Total Replacement Reserve funding (including the Beginning Balance) of \$41,369 from 2016 to 2018.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2018 being accomplished in 2018 at a cost of \$15,750.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2018 - CASH FLOW METHOD CATEGORY FUNDING - TABLE CF3								
CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2018 BEGINNING BALANCE	2018 RESERVE FUNDING	2018 PROJECTED REPLACEMENTS	2018 END OF YEAR BALANCE	
SITE COMPONENTS	10 to 30 years	0 to 17 years	\$62,880	\$28,479	\$3,590	(\$15,750)	\$16,319	

### CASH FLOW METHOD - THREE-YEAR REPLACEMENT FUNDING REPORT

TABLE CF4 below details the allocation of the \$30,600 Beginning Balance, as reported by the Association and the \$10,769 of Replacement Reserve Funding calculated by the Cash Flow Method from 2016 to 2018, to the 6 Projected Replacements listed in the Replacement Reserve Inventory. These allocations have been made by Chronological Allocation, a method developed by Miller Dodson Associates, Inc., and outlined on Page CF1. The accuracy of the allocations is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling \$30,600 on January 1, 2016.
- Replacement Reserves on Deposit totaling \$24,890 on January 1, 2017.
- Replacement Reserves on Deposit totaling \$28,479 on January 1, 2018.
- Total Replacement Reserve funding (including the Beginning Balance) of \$41,369 from 2016 to 2018.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory from 2016 to 2018 being accomplished as scheduled in the Replacement Reserve Inventory at a cost of \$25,050.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates, Inc., to arrange for an update of the Replacement Reserve Study.

#### CASH FLOW METHOD - THREE-YEAR REPLACEMENT FUNDING - TABLE CF4

Item #	Description of Projected Replacement	Estimated Replacement Costs	Allocation of Beginning Balance	2016 Reserve Funding	2016 Projected Replacements	2016 End of Year Balance	2017 Reserve Funding	2017 Projected Replacements	2017 End of Year Balance	2018 Reserve Funding	2018 Projected Replacements	2018 End of Year Balance
SITE COMPONENTS												
1	Stockade fence, north boundary	11,280										
2	Decorative white fence, Salem Run Bl	10,750										
3	Entrance signage (3 ea)	10,800	296	1,929		2,224	1,929		4,153	1,929		6,082
4	Asphalt trail, resurface	9,300	9,554	1,661	(9,300)	1,915	1,661		3,576	1,661		5,237
5	Stormwater drains & structures (10%)	15,750	15,750			15,750			15,750			(15,750)
6	Dry pond concrete structures, allow	5,000	5,000			5,000			5,000			5,000

### COMPONENT METHOD

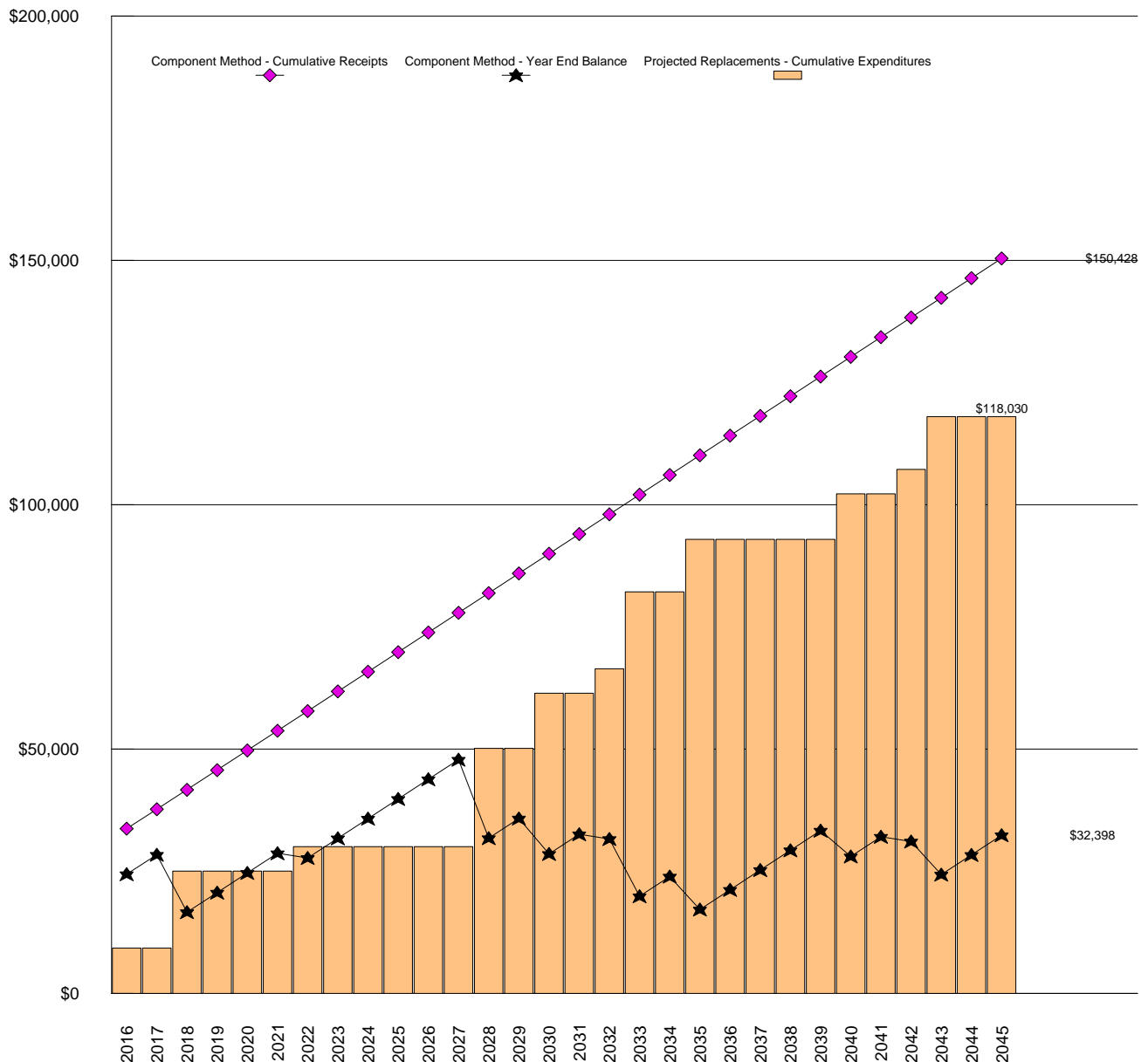


**\$3,117 COMPONENT METHOD RECOMMENDED ANNUAL FUNDING OF REPLACEMENT RESERVES IN THE STUDY YEAR, 2016.**

\$0.37 Per unit (average), recommended monthly funding of Replacement Reserves

General. The Component Method (also referred to as the Full Funded Method) is a very conservative mathematical model developed by HUD in the early 1980s. Each of the 6 Projected Replacements listed in the Replacement Reserve Inventory is treated as a separate account. The Beginning Balance is allocated to each of the individual accounts, as is all subsequent funding of Replacement Reserves. These funds are "locked" in these individual accounts and are not available to fund other Projected Replacements. The calculation of Recommended Annual Funding of Replacement Reserves is a multi-step process outlined in more detail on Page CM2.

**Component Method - Cumulative Receipts and Expenditures Graph**



**COMPONENT METHOD (cont'd)**

- **Current Funding Objective.** A Current Funding Objective is calculated for each of the Projected Replacements listed in the Replacement Reserve Inventory. Replacement Cost is divided by the Normal Economic Life to determine the nominal annual contribution. The Remaining Economic Life is then subtracted from the Normal Economic Life to calculate the number of years that the nominal annual contribution should have been made. The two values are then multiplied to determine the Current Funding Objective. This is repeated for each of the 6 Projected Replacements. The total, \$30,303, is the Current Funding Objective.

For an example, consider a very simple Replacement Reserve Inventory with one Projected Replacement, a fence with a \$1,000 Replacement Cost, a Normal Economic Life of 10 years, and a Remaining Economic Life of 2 years. A contribution to Replacement Reserves of \$100 (\$1,000 + 10 years) should have been made in each of the previous 8 years (10 years - 2 years). The result is a Current Funding Objective of \$800 (8 years x \$100 per year).

- **Funding Percentage.** The Funding Percentage is calculated by dividing the Beginning Balance (\$30,600) by the Current Funding Objective (\$30,303). At Salem Run HOA the Funding Percentage is 101.0%
- **Allocation of the Beginning Balance.** The Beginning Balance is divided among the 6 Projected Replacements in the Replacement Reserve Inventory. The Current Funding Objective for each Projected Replacement is multiplied by the Funding Percentage and these funds are then "locked" into the account of each item.

If we relate this calculation back to our fence example, it means that the Association has not accumulated \$800 in Reserves (the Funding Objective), but rather at 101.0 percent funded, there is \$808 in the account for the fence.

- **Annual Funding.** The Recommended Annual Funding of Replacement Reserves is then calculated for each Projected Replacement. The funds allocated to the account of the Projected Replacement are subtracted from the Replacement Cost. The result is then divided by the number of years until replacement, and the result is the annual funding for each of the Projected Replacements. The sum of these is \$3,117, the Component Method Recommended Annual Funding of Replacement Reserves in the Study Year (2016).

In our fence example, the \$808 in the account is subtracted from the \$1,000 Total Replacement Cost and divided by the 2 years that remain before replacement, resulting in an annual deposit of \$96. Next year, the deposit remains \$96, but in the third year, the fence is replaced and the annual funding adjusts to \$100.

- **Adjustment to the Component Method for interest and inflation.** The calculations in the Replacement Reserve Analysis do not account for interest earned on Replacement Reserves, inflation, or a constant annual increase in Annual Funding of Replacement Reserves. The Component Method is a very conservative method and if the Analysis is updated regularly, adequate funding will be maintained without the need for adjustments.

**Component Method Data - Years 1 through 30**

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Beginning balance	\$30,600									
Recommended annual funding	\$3,117	\$3,983	\$3,983	\$4,024	\$4,024	\$4,024	\$4,024	\$4,026	\$4,026	\$4,026
Interest on reserves										
Expenditures	\$9,300		\$15,750				\$5,000			
Year end balance	\$24,417	\$28,399	\$16,632	\$20,656	\$24,680	\$28,704	\$27,727	\$31,753	\$35,779	\$39,805
Cumulative Expenditures	\$9,300	\$9,300	\$25,050	\$25,050	\$25,050	\$25,050	\$30,050	\$30,050	\$30,050	\$30,050
Cumulative Receipts	\$33,717	\$37,699	\$41,682	\$45,706	\$49,730	\$53,754	\$57,777	\$61,803	\$65,829	\$69,855
Year	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Recommended annual funding	\$4,026	\$4,026	\$4,026	\$4,027	\$4,027	\$4,028	\$4,028	\$4,028	\$4,028	\$4,028
Interest on reserves										
Expenditures			\$20,100		\$11,280		\$5,000	\$15,750		\$10,750
Year end balance	\$43,831	\$47,857	\$31,783	\$35,810	\$28,557	\$32,585	\$31,614	\$19,892	\$23,920	\$17,198
Cumulative Expenditures	\$30,050	\$30,050	\$50,150	\$50,150	\$61,430	\$61,430	\$66,430	\$82,180	\$82,180	\$92,930
Cumulative Receipts	\$73,881	\$77,907	\$81,933	\$85,960	\$89,987	\$94,015	\$98,044	\$102,072	\$106,100	\$110,128
Year	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Recommended annual funding	\$4,030	\$4,030	\$4,030	\$4,030	\$4,030	\$4,030	\$4,030	\$4,030	\$4,030	\$4,030
Interest on reserves										
Expenditures					\$9,300		\$5,000	\$10,800		
Year end balance	\$21,228	\$25,258	\$29,288	\$33,318	\$28,048	\$32,078	\$31,108	\$24,338	\$28,368	\$32,398
Cumulative Expenditures	\$92,930	\$92,930	\$92,930	\$92,930	\$102,230	\$102,230	\$107,230	\$118,030	\$118,030	\$118,030
Cumulative Receipts	\$114,158	\$118,188	\$122,218	\$126,248	\$130,278	\$134,308	\$138,338	\$142,368	\$146,398	\$150,428

## COMPONENT METHOD ACCOUNTING SUMMARY

This Salem Run HOA - Component Method Accounting Summary is an attachment to the Salem Run HOA - Replacement Reserve Study dated July 24, 2015 and is for use by accounting and reserve professionals experienced in Association funding and accounting principles. This Summary consists of four reports, the 2016, 2017, and 2018 Component Method Category Funding Reports (3) and a Three-Year Replacement Funding Report.

- COMPONENT METHOD CATEGORY FUNDING REPORT, 2016, 2017, and 2018. Each of the 6 Projected Replacements listed in the Salem Run HOA Replacement Reserve Inventory has been assigned to one of 1 categories. The following information is summarized by category in each report:
  - Normal Economic Life and Remaining Economic Life of the Projected Replacements.
  - Cost of all Scheduled Replacements in each category.
  - Replacement Reserves on Deposit allocated to the category at the beginning and end of the report period.
  - Cost of Projected Replacements in the report period.
  - Recommended Replacement Reserve Funding allocated to the category during the report period as calculated by the Component Method.
- THREE-YEAR REPLACEMENT FUNDING REPORT. This report details the allocation of the \$30,600 Beginning Balance (at the start of the Study Year) and the \$11,082 of additional Replacement Reserve funding from 2016 to 2018 (as calculated in the Replacement Reserve Analysis) to each of the 6 Projected Replacements listed in the Replacement Reserve Inventory. These allocations have been made using the Component Method as outlined in the Replacement Reserve Analysis. The calculated data includes:
  - Identification and estimated cost of each Projected Replacement schedule in years 2016 through 2018.
  - Allocation of the \$30,600 Beginning Balance to the Projected Replacements by the Component Method.
  - Allocation of the \$11,082 of additional Replacement Reserve Funding recommended in the Replacement Reserve Analysis in years 2016 through 2018, by the Component Method.

### 2016 - COMPONENT METHOD CATEGORY FUNDING REPORT

Each of the 6 Projected Replacements included in the Salem Run HOA Replacement Reserve Inventory has been assigned to one of the 1 categories listed in TABLE CM1 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- A Beginning Balance of \$30,600 as of the first day of the Study Year, January 1, 2016.
- Total reserve funding (including the Beginning Balance) of \$33,717 in the Study Year.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2016 being accomplished in 2016 at a cost of \$9,300.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2016 - COMPONENT METHOD CATEGORY FUNDING - TABLE CM1								
CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2016 BEGINNING BALANCE	2016 RESERVE FUNDING	2016 PROJECTED REPLACEMENTS	2016 END OF YEAR BALANCE	
SITE COMPONENTS	10 to 30 years	0 to 19 years	\$62,880	\$30,600	\$3,117	\$9,300	\$24,417	

### 2017 - COMPONENT METHOD CATEGORY FUNDING REPORT

Each of the 6 Projected Replacements included in the Salem Run HOA Replacement Reserve Inventory has been assigned to one of the 1 categories listed in TABLE CM2 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling \$24,417 on January 1, 2017.
- Total reserve funding (including the Beginning Balance) of \$37,699 from 2016 through 2017.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2017 - COMPONENT METHOD CATEGORY FUNDING - TABLE CM2								
CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2017 BEGINNING BALANCE	2017 RESERVE FUNDING	2017 PROJECTED REPLACEMENTS	2017 END OF YEAR BALANCE	
SITE COMPONENTS	10 to 30 years	1 to 18 years	\$62,880	\$24,417	\$3,983		\$28,399	

### 2018 - COMPONENT METHOD CATEGORY FUNDING REPORT

Each of the 6 Projected Replacements included in the Salem Run HOA Replacement Reserve Inventory has been assigned to one of the 1 categories listed in TABLE CM3 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling \$28,399 on January 1, 2018.
- Total Replacement Reserve funding (including the Beginning Balance) of \$41,682 from 2016 to 2018.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2018 being accomplished in 2018 at a cost of \$15,750.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

**2018 - COMPONENT METHOD CATEGORY FUNDING - TABLE CM3**

CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2018 BEGINNING BALANCE	2018 RESERVE FUNDING	2018 PROJECTED REPLACEMENTS	2018 END OF YEAR BALANCE
SITE COMPONENTS	10 to 30 years	0 to 17 years	\$62,880	\$28,399	\$3,983	\$15,750	\$16,632



### COMPONENT METHOD - THREE-YEAR REPLACEMENT FUNDING REPORT

TABLE CM4 below details the allocation of the \$30,600 Beginning Balance, as reported by the Association and the \$11,082 of Replacement Reserve Funding calculated by the Cash Flow Method from 2016 to 2018, to the 6 Projected Replacements listed in the Replacement Reserve Inventory. These allocations have been made by Chronological Allocation, a method developed by Miller Dodson Associates, Inc., and outlined on Page CF1. The accuracy of the allocations is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling \$30,600 on January 1, 2016.
- Replacement Reserves on Deposit totaling \$24,417 on January 1, 2017.
- Replacement Reserves on Deposit totaling \$28,399 on January 1, 2018.
- Total Replacement Reserve funding (including the Beginning Balance) of \$41,682 from 2016 to 2018.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory from 2016 to 2018 being accomplished as scheduled in the Replacement Reserve Inventory at a cost of \$25,050.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates, Inc., to arrange for an update of the Replacement Reserve Study.

#### COMPONENT METHOD - THREE-YEAR REPLACEMENT FUNDING - TABLE CM4

Item #	Description of Projected Replacement	Estimated Replacement Costs	Allocation of Beginning Balance	2016 Reserve Funding	2016 Projected Replacements	2016 End of Year Balance	2017 Reserve Funding	2017 Projected Replacements	2017 End of Year Balance	2018 Reserve Funding	2018 Projected Replacements	2018 End of Year Balance
SITE COMPONENTS												
1	Stockade fence, north boundary	11,280	1,898	625		2,524	625		3,149	625		3,775
2	Decorative white fence, Salem Run Bl	10,750	3,618	357		3,975	357		4,332	357		4,688
3	Entrance signage (3 ea)	10,800	1,454	719		2,173	719		2,892	719		3,611
4	Asphalt trail, resurface	9,300	9,391	(91)	(9,300)		775		775	775		1,550
5	Stormwater drains & structures (10%)	15,750	12,723	1,009		13,732	1,009		14,741	1,009	(15,750)	
6	Dry pond concrete structures, allow	5,000	1,515	498		2,013	498		2,510	498		3,008

## 1. COMMON INTEREST DEVELOPMENTS - AN OVERVIEW

Over the past 40 years, the responsibility for community facilities and infrastructure around many of our homes has shifted from the local government to Community Associations. Thirty years ago, a typical new town house abutted a public street on the front and a public alley on the rear. Open space was provided by a nearby public park and recreational facilities were purchased ala carte from privately owned country clubs, swim clubs, tennis clubs, and gymnasiums. Today, 60% of all new residential construction, i.e. townhouses, single-family homes, condominiums, and cooperatives, is in Common Interest Developments (CID). In a CID, a homeowner is bound to a Community Association that owns, maintains, and is responsible for periodic replacements of various components that may include the roads, curbs, sidewalks, playgrounds, streetlights, recreational facilities, and other community facilities and infrastructure.

The growth of Community Associations has been explosive. In 1965, there were only 500 Community Associations in the United States. According to the 1990 U.S. Census, there were 130,000 Community Associations. Community Associations Institute (CAI), a national trade association, estimates there were more than 200,000 Community Associations in the year 2000, and that the number of Community Associations will continue to multiply.

The shift of responsibility for billions of dollars of community facilities and infrastructure from the local government and private sector to Community Associations has generated new and unanticipated problems. Although Community Associations have succeeded in solving many short-term problems, many Associations have failed to properly plan for the tremendous expenses of replacing community facilities and infrastructure components. When inadequate replacement reserve funding results in less than timely replacements of failing components, home owners are exposed to the burden of special assessments, major increases in Association fees, and a decline in property values.

## 2. REPLACEMENT RESERVE STUDY

The purpose of a Replacement Reserve Study is to provide the Association with an inventory of the common community facilities and infrastructure components that require periodic replacement, a general view of the condition of these components, and an effective financial plan to fund projected periodic replacements. The Replacement Reserve Study consists of the following:

- Replacement Reserve Study Introduction. The introduction provides a description of the property, reviews the intent of the Replacement Reserve Study, and lists documents and site evaluations upon which the Replacement Reserve Study is based.
- Section A Replacement Reserve Analysis. Many components owned by the Association have a limited life and require periodic replacement. Therefore, it is essential the Association have a financial plan that provides funding for the timely replacement of these components in order to protect the safety, appearance, and value of the community. In conformance with American Institute of Certified Public Accountant guidelines, a Replacement Reserve Analysis evaluates the current funding of Replacement Reserves as reported by the Association and recommends annual funding of Replacement Reserves by two generally accepted accounting methods; the Cash Flow Method and the Component Method. Miller - Dodson provides a replacement reserve recommendation based on the Cash Flow Method in Section A, and the Component Method in the Appendix of the report.
- Section B Replacement Reserve Inventory. The Replacement Reserve Inventory lists the commonly owned components within the community that require periodic replacement using funding from Replacement Reserves. The Replacement Reserve Inventory also provides information about components excluded from the Replacement Reserve Inventory whose replacement is not scheduled for funding from Replacement Reserves.

Replacement Reserve Inventory includes estimates of the normal economic life and the remaining economic life for those components whose replacement is scheduled for funding from Replacement Reserves.

- Section C Projected Annual Replacements. The Calendar of Projected Annual Replacements provides a year-by-year listing of the Projected Replacements based on the data in the Replacement Reserve Inventory.
- Section D Condition Assessment. Several of the items listed in the Replacement Reserve Inventory are discussed in more detail. The Condition Assessment includes a narrative and photographs that document conditions at the property observed during our visual evaluation.
- The Appendix is provided as an attachment to the Replacement Reserve Study. Additional attachments may include supplemental photographs to document conditions at the property and additional information specific to the property cited in the Conditions Assessment (i.e. Consumer Product Safety Commission, Handbook for Public Playground Safety, information on segmental retaining walls, manufacturer recommendations for asphalt shingles or siding, etc). The Appendix also includes the Accounting Summary for the Cash Flow Method and the Component Method.

### 3. METHODS OF ANALYSIS

The Replacement Reserve industry generally recognizes two different methods of accounting for Replacement Reserve Analysis. Due to the difference in accounting methodologies, these methods lead to different calculated values for the Minimum Annual Contribution to the Reserves. The results of both methods are presented in this report. The Association should obtain the advice of its accounting professional as to which method is more appropriate for the Association. The two methods are:

- **Cash Flow Method.** The Cash Flow Method is sometimes referred to as the "Pooling Method." It calculates the minimum constant annual contribution to reserves (Minimum Annual Deposit) required to meet projected expenditures without allowing total reserves on hand to fall below the specified minimum level in any year.

First, the Minimum Recommended Reserve Level to be Held on Account is determined based on the age, condition, and replacement cost of the individual components. The mathematical model then allocates the estimated replacement costs to the future years in which they are projected to occur. Based on these expenditures, it then calculates the minimum constant yearly contribution (Minimum Annual Deposit) to the reserves necessary to keep the reserve balance at the end of each year above the Minimum Recommended Reserve Level to be Held on Account. The Cash Flow Analysis assumes that the Association will have authority to use all of the reserves on hand for replacements as the need occurs. This method usually results in a Minimum Annual Deposit that is less than that arrived at by the Component Method.

- **Component Method.** This method is a time tested mathematical model developed by HUD in the early 1980s, but has been generally relegated to a few States that require it by law. For the vast majority of Miller - Dodson's clients, this method is not used.

The Component Method treats each item in the replacement schedule as an individual line item budget. Generally, the Minimum Annual Contribution to Reserves is higher when calculated by the Component Method. The mathematical model for this method works as follows:

First, the total Current Objective is calculated, which is the reserve amount that would have accumulated had all of the items on the schedule been funded from initial construction at their current replacement costs. Next, the Reserves Currently on Deposit (as reported by the Association) are distributed to the components in the schedule in proportion to the Current Objective. The Minimum Annual Deposit for each component is equal to the Estimated Replacement Cost, minus the Reserves on Hand, divided by the years of life remaining.

### 4. REPLACEMENT RESERVE STUDY DATA

- **Identification of Reserve Components.** The Reserve Analyst has only two methods of identifying Reserve Components: (1) information provided by the Association and (2) observations made at the site. It is important that the Reserve Analyst be provided with all available information detailing the components owned by the Association. It is our policy to request such information prior to bidding on a project and to meet with the individuals responsible for maintaining the community after acceptance of our proposal. After completion of the Study, the Study should be reviewed by the Board of Directors, individuals responsible for maintaining the community, and the Association's accounting professionals. We are dependent upon the Association for correct information, documentation, and drawings.
- **Unit Costs.** Unit costs are developed using nationally published standards and estimating guides and are adjusted by state or region. In some instances, recent data received in the course of our work is used to modify these figures.

Contractor proposals or actual cost experience may be available as part of the Association records. This is useful information, which should be incorporated into your report. Please bring any such available data to our attention, preferably before the report is commenced.

- **Replacement vs. Repair and Maintenance.** A Replacement Reserve Study addresses the required funding for Capital Replacement Expenditures. This should not be confused with operational costs or cost of repairs or maintenance.

## 5. DEFINITIONS

**Adjusted Cash Flow Analysis.** Cash flow analysis adjusted to take into account annual cost increases due to inflation and interest earned on invested reserves. In this method, the annual contribution is assumed to grow annually at the inflation rate.

**Annual Deposit if Reserves Were Fully Funded.** Shown on the Summary Sheet A1 in the Component Method summary, this would be the amount of the Annual Deposit needed if the Reserves Currently on Deposit were equal to the Total Current Objective.

**Cash Flow Analysis.** See Cash Flow Method, above.

**Component Analysis.** See Component Method, above.

**Contingency.** An allowance for unexpected requirements. Roughly the same as the Minimum Recommended Reserve Level to be Held on Account used in the Cash Flow Method of analysis.

**Critical Year.** In the Cash Flow Method, a year in which the reserves on hand are projected to fall to the established minimum level. See Minimum Recommended Reserve Level to be Held on Account.

**Current Objective.** This is the reserve amount that would have accumulated had the item been funded from initial construction at its current replacement cost. It is equal to the estimated replacement cost divided by the estimated economic life, times the number of years expended (the difference between the Estimated Economic Life and the Estimated Life Left). The Total Current Objective can be thought of as the amount of reserves the Association should now have on hand based on the sum of all of the Current Objectives.

**Cyclic Replacement Item.** A component item that typically begins to fail after an initial period (Estimated Initial Replacement), but which will be replaced in increments over a number of years (the Estimated Replacement Cycle). The Reserve Analysis program divides the number of years in the Estimated Replacement Cycle into five equal increments. It then allocates the Estimated Replacement Cost equally over those five increments. (As distinguished from Normal Replacement Items, see below)

**Estimated Economic Life.** Used in the Normal Replacement Schedules. This represents the industry average number of years that a new item should be expected to last until it has to be replaced. This figure is sometimes modified by climate, region, or original construction conditions.

**Estimated Economic Life Left.** Used in the Normal Replacement Schedules. Number of years until the item is expected to need replacement. Normally, this number would be considered to be the difference between the Estimated Economic Life and the age of the item. However, this number must be modified to reflect maintenance practice, climate, original construction and quality, or other conditions. For the purpose of this report, this number is determined by the Reserve Analyst based on the present condition of the item relative to the actual age.

**Estimated Initial Replacement.** For a Cyclic Replacement Item (see above), the number of years until the replacement cycle is expected to begin.

**Estimated Replacement Cycle.** For a Cyclic Replacement Item, the number of years over which the remainder of the component's replacement occurs.

**Minimum Annual Deposit.** Shown on the Summary Sheet A1. The calculated requirement for annual contribution to reserves as calculated by the Cash Flow Method (see above).

**Minimum Deposit in the Study Year.** Shown on the Summary Sheet A1. The calculated requirement for contribution to reserves in the study year as calculated by the Component Method (see above).

**Minimum Recommended Reserve Level to be Held on Account.** Shown on the Summary Sheet A1, this number is used in the Cash Flow Method only. This is the prescribed level below which the reserves will not be allowed to fall in any year. This amount is determined based on the age, condition, and replacement cost of the individual components. This number is normally given as a percentage of the total Estimated Replacement Cost of all reserve components.

**Normal Replacement Item.** A component of the property that, after an expected economic life, is replaced in its entirety. (As distinguished from Cyclic Replacement Items, see above.)

Normal Replacement Schedules. The list of Normal Replacement Items by category or location. These items appear on pages designated.

Number of Years of the Study. The numbers of years into the future for which expenditures are projected and reserve levels calculated. This number should be large enough to include the projected replacement of every item on the schedule, at least once. This study covers a 40-year period.

One Time Deposit Required to Fully Fund Reserves. Shown on the Summary Sheet A1 in the Component Method summary, this is the difference between the Total Current Objective and the Reserves Currently on Deposit.

Reserves Currently on Deposit. Shown on the Summary Sheet A1, this is the amount of accumulated reserves as reported by the Association in the current year.

Reserves on Hand. Shown in the Cyclic Replacement and Normal Replacement Schedules, this is the amount of reserves allocated to each component item in the Cyclic or Normal Replacement schedules. This figure is based on the ratio of Reserves Currently on Deposit divided by the total Current Objective.

Replacement Reserve Study. An analysis of all of the components of the common property of the Association for which a need for replacement should be anticipated within the economic life of the property as a whole. The analysis involves estimation for each component of its estimated Replacement Cost, Estimated Economic Life, and Estimated Life Left. The objective of the study is to calculate a recommended annual contribution to the Association's Replacement Reserve Fund.

Total Replacement Cost. Shown on the Summary Sheet A1, this is total of the Estimated Replacement Costs for all items on the schedule if they were to be replaced once.

Unit Replacement Cost. Estimated replacement cost for a single unit of a given item on the schedule.

Unit (of Measure). Non-standard abbreviations are defined on the page of the Replacement Reserve Inventory where the item appears. The following standard abbreviations are used in this report:

EA: each    FT: feet    LS: lump sum    PR: pair    SF: square feet    SY: square yard

What is a Reserve Study?  
Who are we?



<http://bcove.me/nc0o69t7>

What kind of property uses a Reserve Study?  
Who are our clients?



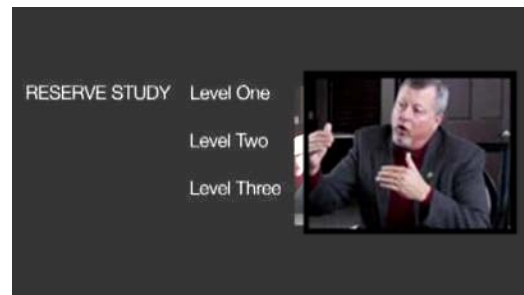
<http://bcove.me/stt373hj>

Who conducts a Reserve Study?  
Reserve Specialist (RS) what does this mean?



<http://bcove.me/81ch7kit>

When should a Reserve Study be updated?  
What are the different types of Reserve Studies?



<http://bcove.me/ixis1yxm>

What is in a Reserve Study and what is out?  
Improvement vs Component, is there a difference?



<http://bcove.me/81ch7kit>

What is my role as a Community Manager?  
Will the report help me explain Reserves to my



<http://bcove.me/fazwdk3h>

clients?

What is my role as a Board Member?  
Will a Reserve Study meet my community's needs?



<http://bcove.me/n6nwnktv>

Community dues, how can a Reserve Study help?  
Will a study help keep my property competitive?



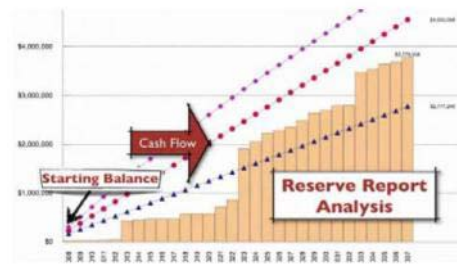
<http://bcove.me/2vfih1tz>

How do I read the report?  
Will I have a say in what the report contains?



<http://bcove.me/wb2fugb1>

Where do the numbers come from?  
Cumulative expenditures and funding, what?



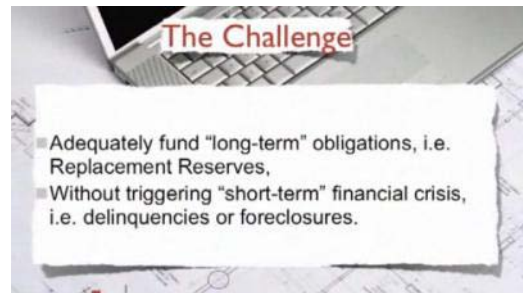
<http://bcove.me/7buer3n8>

How are interest and inflation addressed?  
What should we look at when considering inflation?



<http://bcove.me/s2tmtj9b>

A community needs more help, where do we go?  
What is a Strategic Funding Plan?



<http://bcove.me/iqul31vq>

**Rules and Regulations**  
**SALEM RUN HOA INC.**



Article 8

**RESTRICTIONS ON USE OF LOTS AND COMMON AREA:**  
**RULES AND REGULATIONS**

**Amendment to; Section 8.2 - Restriction on Use, (n) Vehicles:**

Except in connection with construction activities, no **commercial vehicles**, no trucks or vans upon which commercial signage or equipment or materials is visible, or trailers, camper, recreational vehicles, boats or other large vehicles, including grounds maintenance equipment, may be parked on any portion of the Common Area or any portion of a Lot visible from the Common Area or another Lot or on any public right-of-way within or adjacent to the Property, unless expressly permitted by the Board of Directors and only in such parking areas or for such time periods (if any) as may be designated for such purpose. Parking of all such vehicles and relate equipment, other than on a temporary and non-recurring basis, shall be in garages or screened enclosures approved by the Covenants (if any). No junk or derelict vehicle or other vehicle on which current registration plates and current county and state inspection permits are not displayed shall be kept upon any portion of the Common Area or any portion of a Lot visible from the Common Area or another Lot or any public right-of-way within or adjacent to the Property. Vehicle repairs are not permitted, except in accordance with the Rules and Regulations; **provided, however** that noncommercial repair of vehicles is permitted within enclosed structures. All motor vehicles, including without limitation, trail bikes, motorcycles, dune buggies and snowmobiles, shall be driven only upon paved streets and parking lots. No motor vehicles shall be driven on paths and walkways or unpaved portions of the Common Area, except such vehicles as authorized by the Board of Directors for the Upkeep of the Common Area.

\_\_\_\_\_  
President

\_\_\_\_\_  
Date

**Yearly Meeting Schedule**  
**SALEM RUN HOA INC.**

# Salem Run

HOMEOWNERS ASSOCIATION, INC

## 2016 MEETING SCHEDULE

<u>Date</u>	<u>Time</u>	<u>Type of Meeting</u>	<u>Location</u>
February 3, 2016	6:00 pm	Board	Salem Church Library
April 6, 2016	6:00 pm	Board	Salem Church Library
July 6, 2016	6:00 pm	Board	Salem Church Library
October 05, 2016	6:00 pm	Board	Salem Church Library
November 9, 2016	6:00 pm	Annual	Salem Church Library

Meetings of the Board of Directors are held at Salem Church Library located at **2607 Salem Church Rd, Fredericksburg, VA 22407.**

The 2016 Annual Meeting will be held on November 9, 2016 at Salem Church Library. Notice of the annual meeting will be sent out in late October.

Salem Run Community Association Manager, **Michelle Bolte** at **540-371-3406, Ext. 221** or [mbolte@e-landmarc.com](mailto:mbolte@e-landmarc.com).

St. George's Accounts Manager, **Tracy Hymes** at **540-371-3406 Ext. 211** or [thymes@e-landmarc.com](mailto:thymes@e-landmarc.com).

- **Meeting dates are subject to change at the Board's discretion.**

Salem Run Villas		HOA Meeting Schedule			2015	
Meeting Date	Time	Location	Room	Type		
Wednesdays						
February 4, 2015	6:00 p.m.	Salem Church Library	A	Board		
April 1, 2015	6:00 p.m.	Salem Church Library	A	Board		
July 1, 2015	6:00 p.m.	Salem Church Library	A	Board		
October 7, 2015	6:00 p.m.	Salem Church Library	A	Board		
November 4, 2015	6:00 p.m.	Salem Church Library	A	Annual		
Meeting Dates and Location subject to change. Please contact management to confirm.						

# Salem Run

## HOMEOWNERS ASSOCIATION, INC

### 2017 MEETING SCHEDULE

<u>Date</u>	<u>Time</u>	<u>Type of Meeting</u>	<u>Location</u>
February 8, 2017	6:00 pm	Board	Salem Church Library
May 24, 2017	6:00 pm	Board	Salem Church Library
August 9, 2017	6:00 pm	Board	Salem Church Library
November 8, 2017	6:00 pm	Annual	Salem Church Library

Meetings of the Board of Directors are held at Salem Church Library located at **2607 Salem Church Rd, Fredericksburg, VA 22407.**

The 2017 Annual Meeting will be held on November 8, 2017 at Salem Church Library. Notice of the annual meeting will be sent out in late October.

Salem Run Community Association Manager, **Michelle Bolte** at **540-371-3406, Ext. 221** or [mbolte@e-landmarc.com](mailto:mbolte@e-landmarc.com).

Salem Run Accounts Manager, **Tracy Hymes** at **540-371-3406 Ext. 211** or [thymes@e-landmarc.com](mailto:thymes@e-landmarc.com).

- **Meeting dates are subject to change at the Board's discretion.**