

PROSPECT COMMONS HOMEOWNERS ASSOCIATION, INC.
RESERVE POLICY

Effective: 12/31/2013

1. Introduction.

The Board of Directors ("Board") of Prospect Commons Homeowners Association, Inc., a Colorado nonprofit corporation ("Association"), acting pursuant to the powers set forth in the Association's Bylaws, Articles of Incorporation, the Prospect Commons Declaration of Covenants, Conditions and Restrictions ("Declaration") (such documents being collectively referred to as the "Association Documents"), and the Colorado Common Interest Ownership Act, as amended ("CCIOA"), has enacted the following Policy effective as of the date set forth above. Unless the context otherwise indicates, capitalized words and terms shall have the meanings set forth in the Association Documents and, if not defined in the Association Documents, then as set forth in CCIOA. This Policy supersedes any previously adopted Policy on the same subject matter.

2. Policy Purposes. The purposes of this Policy are to:

2.1 Provide, through a reserve study, a tool for the Association to identify components of the community that the Association is responsible to maintain, repair and replace, to determine the useful life of those components, to establish a maintenance, repair and replacement schedule for those components, and to establish a plan for funding such maintenance, repair and replacement.

2.2 Manage the investment of the Association's reserve funds ("Reserve Funds") in a prudent manner to preserve them for their intended uses, structure the maturities of Reserve Fund investments so that the Association will have liquid assets available for its anticipated needs, and realize appropriate returns on the Association's Reserve Fund investments.

3. Reserve Study.

The Association shall have a reserve study prepared and periodically updated (any reserve study, together with any updates, being collectively referred to in this Policy as the "Reserve Study") for those components of the community maintained, repaired and replaced by the Association. The Reserve Study shall be prepared at least once during each three to five year period (with the first three to five year period commencing January 1, 2014), or more frequently if determined necessary by the Board in its sole discretion. The Reserve Study may be prepared by the Association, its managing agent or by a qualified outside consultant. The Reserve Study shall be based on both a physical analysis and a financial analysis of the components for which the Association has maintenance, repair and replacement responsibility.

4. Funding Plan for Work Recommended by Reserve Study.

The Board shall adopt a plan for funding any work recommended by the Reserve Study, which plan shall be updated from time to time as deemed necessary by the Board in its sole discretion (the funding plan, together with any updates, being collectively referred to in this

Policy as the "Funding Plan"). The Funding Plan shall take into consideration the cost of maintenance, repair and replacement of the community components for which the Association is responsible, the impact of inflation, the projected funding sources for the work (including assessments collected from the owners and revenue generated from invested Reserve Funds), as well as any other factors considered advisable by the Board. The goal of the Funding Plan shall be to maintain Association reserves at an adequate level to provide for the timely maintenance, repair and replacement of the community components for which the Association is responsible so as to minimize the risk to the owners of special assessments, deferred maintenance and unfunded losses. The Funding Plan will require the Association to maintain a positive Reserve Funds balance but the Reserve Funds need not be 100% of the amount necessary to fully fund the work identified in the Reserve Study.

5. Investment of Reserve Funds.

5.1 Segregated Accounts. All Reserve Funds shall be maintained in an account or accounts separate from the Association's operating account or accounts.

5.2 Types of Investments. The Board shall invest the Association's Reserve Funds in one or more of the following types of investments:

- FDIC-insured interest bearing liquid bank accounts (money market deposit accounts) with no more than the maximum FDIC-insured amount in any one financial institution.
- FDIC-insured certificates of deposit with no more than the maximum FDIC-insured amount in any one financial institution.
- Money market funds that invest only in United States Treasuries and Treasury-backed securities.
- Treasury bills, notes or bonds purchased with the intent to hold to maturity.
- Any other type of investment that is (a) FDIC-insured or guaranteed by the United States government (but only to the extent of such insurance or guarantee), or (b) an obligation of the United States government.

5.3 Liquidity. The Board shall maintain from time to time a sufficient portion of its Reserve Funds in one or more liquid accounts to meet required expenditures for repairs or replacement that the Association will incur before its non-liquid assets mature.

5.4 Laddering of Non-Liquid Investments. The Association's non-liquid investments should be structured with laddered maturity dates so that the investments mature during successive time periods. The length of maturities should be based on market conditions and the Association's anticipated maintenance, repair and replacement needs. This laddering strategy is intended to provide the Association with the benefit of longer term interest rates, which are customarily higher than short-term rates, while maintaining

sufficient liquidity from time to time to meet the Association's maintenance, repair and replacement schedule.

5.5 Investment Advisor. The Board may retain a professional investment advisor to assist in investing its Reserve Funds pursuant to this Policy.

5.6 Control and Review of Investments. All Reserve Funds will be held in accounts titled in the name of the Association. Any withdrawal or transfer of Reserve Funds requires the signatures of at least two Association officers or directors. The Board will review the periodic account statements sent to the Association for the Reserve Funds at the next Board meeting following the Association's receipt of the statements. Based on this review, the Board may make any adjustments to the investments as necessary to maintain competitive yields.

5.7 Standards of Conduct. In making decisions regarding the investment of Association Reserve Funds, the officers and directors shall act in good faith, with the care that ordinarily prudent persons in a like position would exercise under similar circumstances, and in a manner the officers or directors reasonably believe to be in the best interests of the Association, pursuant to the Colorado Revised Nonprofit Corporation Act.

6. Variances.

The Board may from time to time vary from the requirements set forth in this Policy if the Board determines in its sole discretion that such variance is reasonable under the circumstances.

7. Amendment.

This Policy may be amended from time to time by the Board.

CERTIFICATION

The undersigned, being the duly elected and acting Secretary of the Prospect Commons Homeowners Association, Inc., a Colorado nonprofit corporation ("Association") certifies that the foregoing Reserve Policy was approved by the vote of a majority of the Association's Directors at a meeting of the Association's Board of Directors held on

12/5/2013.

Prospect Commons Homeowners Association, Inc.,
a Colorado nonprofit corporation

By: Marlys Hansen
Marlys Hansen, Secretary