

RESERVE INVESTMENT POLICY

Association directors have a fiduciary duty to prudently manage reserve assets. Accordingly, the directors have set forth an investment policy to pursue association objectives and goals. The policy is based on historical bond rates, money market instruments, and inflation. The directors expect that over time the strategy will produce results consistent with history and meet the reserve fund's goals.

A. RESERVE STUDIES

1. Periodic Reserve Studies Required.

No less frequently than every five (5) years, the Board shall commission a qualified reserve study analyst to conduct a reserve study (the "Study"). The Study shall:

- a. Identify all common area components that have a useful life of three to 30 years, and that are the Association's responsibility to repair or replace. (The study may, but is not required to, consider components with useful lives exceeding 30 years.)
- b. Assign a reasonable cost of repair or replacement to each component based on current costs for the area.
- c. Assign a reasonable useful life to each component based on local conditions.
- d. Set forth a 30-Year Repair & Replacement Schedule that identifies the years when work will be performed on each component, and which, in calculating the cost of each repair or replacement, takes into account the cost of inflation.
- e. Establish a 30-Year Funding Plan (the "Plan") for a reserve account (the "Account"), which plan takes into consideration the costs of repairs and replacements (adjusted for inflation), contributions from members, interest income on the Account, and taxes owing on interest income. The Plan shall include monthly contributions from members adequate to meet projected costs without the need for special assessments.

2. Annual Updates.

In each year that a Study is not conducted, an update may be commissioned from a qualified reserve study analyst to reflect prevailing conditions, including changes in costs, inflation, interest yield on invested funds, as well as modification, addition, or deletion of components. Any update shall also reflect any unexpected variations from the most recent Study.

3. Funding of Reserve Account.

The Account shall be funded in accordance with the results of the Study and any subsequent updates.

4. Permitted Uses of Reserve Funds.

The funds in the Account are to be used only for the repair and replacement of the specific common area components identified in the Study. Components that fit the definitions included in the Study may be added in any given year in the annual updates.

B. RESERVE INVESTMENTS

1. Goals and Objectives.

Investments shall be guided by the following goals, listed in decreasing order of importance:

- a. Safety of principal. The long-term goal is safety of the replacement reserves.
- b. Liquidity and accessibility. Funds should be readily available for projected or unexpected expenditures.
- c. Minimal costs. Investments costs (redemption fees, commissions, and other transaction costs) should be minimal.
- d. Professional management. Funds should be invested with professional managers who have good reputations and sound credentials.
- e. Return. Funds should be invested to seek the highest level of return that is consistent with preservation of the purchasing power of the principle and accumulated interest.

2. Investment Strategy.

In order to minimize the amount of member contributions, the Board shall invest the funds in the Account so as to generate interest revenue that will accrue to the Account balance. All investments shall be in the name of the Association, shall not be commingled with the Association's general operating account. Reserve funds shall be invested conservatively in secure investment. Unless otherwise approved by a majority of a quorum present in person or by proxy at a meeting of the members, shall be FDIC (Federal Deposit Insurance Corporation) insured or otherwise guaranteed by the United States Government.

Select securities that mature in one to five years. Structure them so that an equal number mature each year. Consistently purchase securities at the long end of the maturity range with new or matured funds. Reserve assets will benefit from long-term rates, which are often higher than short-term rates, while maintaining ready availability of funds and cash flow. The association may veer from this strategy when reserving a portion for a specific

expense. Use the most recent reserve study to match the effective maturities to the dates of the expenses. Effective maturity may be sooner than stated maturity.

- a. Selection Criteria. Securities will be selected with an emphasis on these characteristics: preservation of capital; quality; effective maturity; and net after-tax return.
- b. Cash Equivalents. Money market funds of a bank or major brokerage firm; bank certificates of deposit; AAA-rated municipal or U.S. treasury securities with maturities of one year or less.
- c. Fixed Income. Utilize taxable income securities for association income that is taxable in the lower brackets. Invest in tax-exempt securities above that level if the after-tax return is favorable. The taxable portion shall consist of U.S. treasury securities and insured bank certificates of deposit. Tax-exempt securities will be rated in the AAA-quality level by at least one major credit rating agency at the time of purchase or be of equivalent quality if non-rated. An issue-by-issue review will be conducted for each security that has its credit rating lowered after purchase and for each security presently in the portfolio that falls below these criteria. A decision will be made to either hold and monitor or liquidate. Beyond quality considerations, selection criteria will emphasize securities' maturities before yields. This emphasis is recognized as essential to the governing investment strategy.

3. Review and Control.

The Board shall review the Account investment plan at least annually to ensure that the funds are receiving competitive yields, and shall be authorized to make prudent adjustments as needed. Policy considerations concerning changes on investment strategy or security selection will also require a meeting to obtain a consensus. The performance review will be compared to the goals and objectives of the reserve fund. The directors will recognize the price volatility of fixed-income investments and not the strategy to hold such securities to their fixed value at maturity.

4. Two Signatures Necessary.

All checks drawn on the Account shall require the signature of no fewer than two authorized members of the Board.