

## **AVON TOWN SQUARE, LOT 2, CONDOMINIUM ASSOCIATION**

### **CAPITAL REPLACEMENT RESERVES POLICY**

*(Effective Date: April 21, 2016)*

The Avon Town Square, Lot 2, Condominium Association, Inc. (the "Association") is a commercial common interest association of owners that was organized under the provisions of the Colorado Revised Nonprofit Corporation Act (the "Act") and is subject to many of the terms and provisions of the Colorado Common Interest Ownership Act ("CCIOA").

Under the Association's governing documents, the Board of Directors (the "Board") has the delegated power and authority to deal with all matters concerning the Association's capital replacement reserve needs and requirements. Under the terms of the Association's Declaration and its other governing documents, the Association must establish and maintain an adequate reserve account to provide for the periodic maintenance, repair and replacement of various common elements. The Association is also required to comply with this process under the provisions of CCIOA. This means that the Association must fund its reserve account in amounts that will be sufficient to address major expenses incurred from time to time for repair and replacement of its limited and common elements and any of its facilities. In fulfilling this obligation, the Board has approved and adopted the procedures set forth below. The Board also communicates with the Association's Managing Agent on an ongoing basis and monitors the reserve needs of the Association. The Board and the Managing Agent take appropriate steps to assure that adequate funding for capital repair and replacement expenses is available.

#### **Capital Reserve Studies and Reports**

The Association's reserve responsibilities are reviewed by the Board and the Managing Agent on an annual basis. This review is based upon the Managing Agent's inspections and recommendations as well as evaluations that the Managing Agent obtains periodically from outside contractors and consultants. Based upon apparent needs as perceived by the Board and as revealed by inspections and reports, the Board determines the extent and cost of the necessary repairs and replacements and then takes appropriate steps to authorize the necessary work.

Copies of all reports relating to capital repair and replacement issues will be distributed promptly to each Board member. The Managing Agent has the responsibility to bring capital repair and replacement issues to the attention of the Board and to schedule discussion of this subject as an agenda item at all regular Board meetings. The Board has complete discretion to require such further reports or information as may be deemed necessary or appropriate before taking any action with regard to a proposed capital repair or replacement project.

#### **Establishing and Maintaining the Reserve Account**

The Managing Agent will maintain the Association's reserve accounts at one or more banks as approved by the Board. At the present time, reserve account funds are maintained in savings accounts that provide the highest available interest rate offered by the depository bank for such accounts. The goal of the Association is to preserve these funds in a manner that will ensure availability but also provide a competitive rate of return. The Board has determined that this can be

accomplished for the present time by maintaining the funds in higher-yielding bank savings accounts. If appropriate, the Board will also determine whether such funds should be deposited in money market funds of major brokerage accounts, bank certificates of deposit or U.S. treasury securities with maturities of one year or less.

The status of the reserve account funds will at all times be reflected in the Association's current financial statements. Owners are entitled to review the Association's current financial statements upon request. The Managing Agent is also authorized, upon the request of any owner, to provide additional information to owners concerning the amount and current yield on all reserve account funds of the Association.

The Managing Agent is authorized to make expenditures from the reserve account without prior approval from the Board. If the Board approves a major capital repair or replacement expense and authorizes payment from the reserve account, this fact shall be reflected in the minutes for the next regular Board meeting.

### **Reserve Fund Levels**

It is the goal of the Association to have sufficient reserve funds or borrowing capacity available at all times to meet current capital repair and replacement needs of the Association. The Board will determine the appropriate level of the capital replacement reserve funds from time to time based upon the Managing Agent's recommendations and any related reports or information. Whenever the Board determines that the level of capital replacement funds is inadequate, the Board will take appropriate steps or action to cure the deficiency within a reasonable time. In doing so, the Board is authorized and empowered to engage in all of the funding techniques and mechanisms described below.

### **Funding Mechanisms**

Under the Association's Declaration, a portion of all annual assessments for common expenses collected by the Association is required to be allocated to the capital repair and replacement reserve fund. The Board oversees this annual process and determines the amount of each annual contribution to the reserve fund.

The Association is also empowered under its Declaration to levy special assessments from time to time to pay unbudgeted costs of reconstruction, repair, replacement, renovation and maintenance of the common elements and the facilities. While the Board anticipates that reserve account funds will ordinarily be funded by annual allocations of regular assessment revenues, the Board is mindful that it has authority to levy special assessments from time to time in order to supplement the reserve accounts and provide for needed replacement and repair expenses. This will be done whenever the Board deems that the current operational or capital obligations of the Association require an injection of funds that are not otherwise readily available. The amount of any special assessment is entirely discretionary with the Board.

The Board is also authorized to cause the Association to borrow funds from time to time or obtain other financial accommodations in order to provide funds for immediate operational expenses as well as long term capital replacement and repair expenses. The Association is

empowered under CCIOA to pledge its assessment revenue stream as well as other property to collateralize borrowings of this nature.