

KIPLING SUN TOWNHOMES ASSOCIATION, INC.

Disclosures &
Summary of Insurance Coverage

Revised 3/28/11 JKM

INSURANCE COVERAGE

INSURANCE TYPE	COMPANY	COVERAGE Limits [deductibles]	EXPIRATION DATES	NOTES Or Additional Insureds
Property	Lexington Ins. Co.	\$1,000,000,000 [\$5,000]	November each year	
General liability	Lexington Ins. Co.	\$1,000,000 occ. \$2,000,000 agg.	November each year	
Commercial Automobile	Lexington Ins. Co.	\$1,000,000	November Each year	
Director & Officer liability	Great American Insurance	\$1,000,000 [\$1,000] Reten.	November each year	Includes ctte volunteers.
Crime & Fidelity	Travelers	\$500,000 [\$5,000]	November each year	Property mgr. included.
Boiler & Machinery	Lexington Ins. Co.	\$50,000,000 (\$5,000)	November each year	
Volunteer Accident	CIGNA	\$500,000/\$25,000 (\$0)	November Each year	

DISCLOSURES

1. The fiscal year for the association is the calendar year.
2. The association/complex is composed of 120 individually owned units, a graphic of which can be located on the association's website, www.kiplingsun.net.
3. The association dues are uniformly assessed. For the fiscal year ended 12/31/10 the dues are \$186/month/unit, if necessary dues are adjusted through the budget process at the beginning of each calendar/fiscal year.
4. The governing documents (Declarations, By Laws, Rules and Regulations & Architectural Guidelines constitute a legal contract between the individual owner and the association. These documents can be found on the association's website.
5. The association is governed by a 3 member board of directors whose current composition can be found on the website, www.kiplingsun.net.
6. The powers, duties and responsibilities of the board of directors is set forth in the governing documents.
7. Provisions regarding conflicts of interest can be found within Colorado Statutes or in the governing documents.
8. The association's legal counsel is Orten, Cavanaugh, Richmond & Holmes, Denver CO.
9. Provisions regarding the collection of delinquent accounts are contained within the governing documents.
10. Various fines may be assessed for non-compliance with the governing documents as provided in those governing documents.
11. The association's annual audit is performed by a licensed Certified Public Accountant and is available through the community manager.
12. The association's annual adopted budget, annual financial statements and the results of their audit can be found on the association's website: www.kiplingsun.net or through the community manager.
13. The association's current insurance broker is Peliton Insurance, Denver, CO.
14. Specifics regarding owner/association maintenance responsibility can be found in the Declarations and By Laws of the association.
15. Board meeting dates are announced via the community newsletter and as posted on the community bulletin board & items of general community interest are posted.
16. Board meetings are in accordance with Robert's Rules & open to any homeowner except for executive sessions of the board, which may be only held consistent with Law.
17. A 'homeowner's forum' section is held during each board business meeting.
18. Generally, owners have access to all association records, specific provisions can be found in Colorado Statutes (including 38-33.3) and within the governing documents.

19. The association plans for future capital needs through the use of a 'reserve study' prepared or updated annually and funded by a contribution of annual dues.
20. Procedures for adopting changes to the various governing documents can be found within those specific governing documents.
21. The current property manager for the association is Professional Management Associates, 12381 E. Cornell Ave, Aurora, CO 80014; 303/750-0994; Email: pmaaurora@eschelon.com



Kipling Sun Townhome Association, Inc.

C/O PROFESSIONAL MANAGEMENT ASSOCIATES, INC.

12381 E. Cornell Avenue AURORA, COLORADO 80014 Phone (303) 750-0994, Fax (303) 750-1612
www.kiplingsun.net

POLICIES:

It is the policy of the Board of Directors to adhere to the directives and policies established by Federal or State Law; the Amended Declaration of Covenants, Conditions and Restrictions (the Declarations); and the Amended By Laws (By Laws) of Kipling Sun Townhomes Association, Inc (Kipling Sun). Federal and State laws are available on the Internet and the Declarations, By Laws, Rules and Regulations and the Architectural Guidelines are available on the website, www.kiplingsun.net. The Kipling Sun policies with respect to various areas are as follows:

- **Policy: Adoption and amendment of policies, procedures, and rules**
- **Policy: Collection policy and procedures:**
- **Policy: Meetings policy and procedures, Board and member meetings:**
- **Policy: Examination, inspection, and copying of association records, policies, and procedures:**
 - **Privacy Policy-Adopted 7/14/05 as a directive to the property manager**
- **Policy: Enforcement policy and procedures:**
- **Policy: Handling board member conflicts of interest policy and procedures:**
- **Policy: Reserve fund and investment policy:**
- **Policy: Architectural review policy and procedures:**
- **Policy: Procedures for claims submissions to association's insurance carrier:**
- **Policy: Procedures regulating flags/flagpoles:**
- **Policy: Procedures regulating political signs:**
- **Policy: Emergency Vehicle parking policy and procedures:**
- **Policy: Procedures to be used by association in cooperating with owners selling units:**
- **Policy: Alternative dispute resolution policy and procedures:**
- **Policy: Maintenance Responsibility:**
- **Policy: Insurance Responsibility:**
- **Policy: Capital Reserve Fund & Reserve Study**
- **Policy: Code of Conduct for Board Members**
- **Policy: Snow Removal Policy**
- **Policy: Investment Policy**

Policy: Adoption and amendment of policies, procedures, and rules

Order of Priority of documents:

The order of 'control' of the documents is generally 1) Federal or State Law; 2) The Articles of Incorporation; 3) The Declarations & Plat; 4) The By Laws and lastly 5) The Architectural Guidelines, The Rules and Regulations. Review of these documents is encouraged. Similar statements can be found in both the Declarations and the By Laws, which state:

By Laws, Section 8.2. Case of Conflict In the case of any conflict between the Articles of Incorporation and these By-Laws, the Articles shall control; in case of

any conflict between the Declaration and these By-Laws, the Declaration shall control; and in the case of any conflict between the Articles and the Declaration, the Declaration shall control.

With respect to conducting business according to Law & the Governing documents the By Laws also state at 8.3:

By Laws, Section 8.3 Adherence to the Bylaws. All business of the Association shall be conducted strictly in accordance with these Amended Bylaws and in accordance with the Laws of the State of Colorado and other appropriate governing laws, rules and regulations.

The various documents may be amended or appended as follows:

Federal or State Laws may be amended or appended pursuant to the Constitutions of those bodies.

The Declarations may be amended pursuant to 19.2 of the Declarations which states:

Section 19.2. Duration and Amendment. The covenants and restrictions of this Declaration shall run with and bind the Property... This Declaration shall not be amended, except as otherwise herein provided, without the consent of Owners of Lots to which at least 67% of the votes in the Association are allocated, and approval of 67% of the First Mortgagees.

The portion relating to the approval of the First Mortgagees has been amended by State Law, which allows for a method of 'negative assurance' and states at CRS 38-33.3-217 (b):

If the Declaration requires First Mortgagees to approve or consent to amendments, the Association shall send a dated, written notice and a copy of any proposed amendment by Certified Mail to each First Mortgagee at its most recent address as shown on the recorded Deed of Trust or recorded assignment thereof. In addition, the Association shall cause the dated notice, together with information on how to obtain a copy of the proposed amendment, to be printed in full at least twice, on separate occasions at least one week apart, in a newspaper of general circulation in the County in which the Common Interest Community is located. A First Mortgagee that does not deliver to the Association a negative response within sixty days after the date of the notice shall be deemed to have approved the proposed amendment.

The By Law may be amended pursuant to Section 8.1 of the By Laws, which states:

Section 8.1. Amendments. These By-Laws may be amended by the Board of Directors at a duly constituted Board meeting for such purpose, or at a meeting of Owners called for such purpose and approved by Owners representing interests of at least 67% of the membership. The notice of such Board or Owner meeting shall contain a summary of the proposed changes or a copy of such proposed changes. No amendment shall serve to shorten the term of any Director. The prior approval of 51 % of the First Mortgagees shall be required for any material amendments to these By-Laws.

The Architectural Guidelines (which have their foundation in the Declarations) & may be amended or appended by the Board of Directors pursuant to the Declarations upon recommendation of the Architectural Control Committee.

The Rules and Regulation may be amended or appended by the Board of Directors pursuant to their duties and powers.

The Policies of Kipling Sun may be amended or appended by the Board of Directors pursuant to their powers and duties.

Policy: Collection policy and procedures:

Kipling Sun assessments (homeowner dues) are announced prior to the beginning of each fiscal year. These may only increase over the prior year by 10% according to the Declarations. These dues, pursuant to the Declarations are uniformly assessed among the units. The monthly

assessments are due on the first day of each month. A late fee of \$20.00 plus interest of 21% per annum will be charged for all payments received after 15th of the month in which the assessment is due. Should an account continue to be past due, the Property Manager sends out a series of 'demand' letters until such time as the amount is collected or is in arrears is equal to three months dues at which time the account is referred to legal counsel for collection. Unpaid amounts (assessments, late charges, other costs & fines) can become a lien against the property, can form the basis for lawsuit or foreclosure and are the personal obligation of the owner. The foundation for a uniform rate of assessment is found in the Declarations at 9.3

Both annual and special assessments must be fixed at a uniform rate for all Lots. The foundation for the assessments being due the 1st day of the month is found in the Declarations at 9.1:

Initially, the assessment for the estimated Common Expenses on an annual basis shall be payable in equal monthly installments in advance on the first day of each calendar month. The foundation for the late charge amount, the interest rate and the authority for the Board to annually increase the assessment (dues) amount are found in the Declarations at 9.4

Assessments shall be due and payable on or before the 1st of each month. Each assessment shall bear interest at the rate of 21 % per annum from the date it becomes due and payable if it is not paid within 15 days after such date, and, in addition, there shall be an automatic \$20.00 late charge for each installment of assessment payment not received by the Association within 15 days after the due date. The Association shall provide written notice to Owners of any increase in the assessments.

The Rules and Regulations of Kipling Sun provide as follows with respect to collection of delinquent accounts:

Any account delinquent in excess of three months dues is referred to legal counsel for collection or action. (Effective 5/12/05.)

The foundations for these amounts constituting a lien against the property are found in the Declarations at 9.7.

All sums assessed but unpaid for the share of Common Expenses or special assessments chargeable to any Lot, including any fees, late charges, fines or interest, shall constitute a lien on such Lot superior to all other liens and encumbrances...The lien may be enforced by foreclosure of the defaulting Owner's Lot by the Association in the manner for foreclosing a mortgage on real property. In the event of any such foreclosure, the Owner shall be liable for the amount of unpaid assessments, any penalties thereon, the costs and expense of such proceedings, the costs and expense for filing the notice of the claim and lien, and all reasonable attorneys' fees in connection therewith.

The foundation for these amounts constituting a personal obligation of the owner can be found in the Declarations at 9.8.

The amount of any assessment chargeable against any Lot shall be a personal and individual debt of the Owner thereof. No Owner may become exempt from liability for the assessment by abandonment or waiver of the use or enjoyment of any of the Common Areas or Common Area Improvements. Suit to recover a money judgment for unpaid Common Expenses plus interest and expenses, including attorneys' fees, shall not constitute an election of remedies or a waiver of the assessment lien provided herein.

Policy: Meetings policy and procedures, Board and member meetings:

Meetings of the Board of Directors or any committee are open to all homeowners (except for executive sessions allowed by State Law.) Owners are encouraged to attend. Meeting notices and agendas are posted on the community bulletin board and are available, on request to the Property Manager, in electronic form. Owner participation is assured in several places. CRS 38-33.3-308 (2) (a) states:

(2) (a) All regular and special meetings of the association's executive board, or any committee thereof, shall be open to attendance by all members of the association or their representatives. Agendas for meetings of the executive board shall be made reasonably available for examination by all members of the association or their representatives.

That same section at 38-33.3-308 (2.5) (a) also states:

(2.5) (a) Notwithstanding any provision in the Declaration, By Laws, or other documents to the contrary, all meetings of the Association and Board of Directors are open to every unit owner of the Association, or to any person designated by a unit owner in writing as the unit owner's representative, and all unit owners or designated representatives so desiring shall be permitted to attend, listen, and speak at an appropriate time during the deliberations and proceedings; except that for regular and special meetings of the Board, unit owners who are not Board members may not participate in any deliberation or discussion unless expressly so authorized by a vote of the majority of a quorum of the Board.

Pursuant to that same section (b) the Board may place 'reasonable time restrictions on persons speaking:

(b) The Board may place reasonable time restrictions on those persons speaking during the meeting...

Owners are also encouraged to participate in meetings in the Declarations at 5.6 where it states:

All Owners, First Mortgagees, insurers, or guarantors of a First Mortgage of a lot in the project shall, upon request, be entitled to:

C. Written notices of all meetings of the Association and be permitted to designate a representative to attend all of such meetings.

The policy of the Board, to encourage attendance, is to conduct Board meetings in public places, available to homeowners. This is found in the By Laws at 3.2 which states:

Section 3.2 Place of Meetings. Meetings of the Association shall be held in a public place or such other place convenient and accessible to Members as the Board of Directors may determine. Meetings of the Board should not be conducted in a private residence, unless that place of meeting is the only reasonably available meeting place.

The Board may recess into executive session only for certain allowable reasons (where they may not take action) as set by State Law at CRS 38-33.3-308 (4) & (5);

(4) Matters for discussion by an executive or closed session are limited to:

(a) Matters pertaining to employees of the association or the managing agent's contract or involving the employment, promotion, discipline, or dismissal of an officer, agent, or employee of the association;

(b) Consultation with legal counsel concerning disputes that are the subject of pending or imminent court proceedings or matters that are privileged or confidential between attorney and client;

(c) Investigative proceedings concerning possible or actual criminal misconduct;

(d) Matters subject to specific constitutional, statutory, or judicially imposed requirements protecting particular proceedings or matters from public disclosure;

(e) Any matter the disclosure of which would constitute an unwarranted invasion of individual privacy;

(f) Review of or discussion relating to any written or oral communication from legal counsel.

(5) Prior to the time the members of the executive board or any committee thereof convene in executive session, the chair of the body shall announce the general matter of discussion as enumerated in paragraphs (a) to (e) of subsection (4) of this section.

Policy: Examination, inspection, and copying of association records, policies, and procedures:

Kipling Sun Homeowners Association, Inc. is an Association and Corporation belonging to its members (the owner's) and that as such the owners have a right to examine or receive copies of the HOA's records except those records (such as certain, legally privileged, attorney-client communications) specifically exempted by law. Requests to examine or copy records should be made of the Property Manager, the HOA's records custodian. The Board has taken action, which can be found in their minutes of 5/12/05 (adopted as a directive to the property manager 7/14/05 [and shown below]) to protect confidential information of members (owners.) This records access is assured the owners in several places:

CRS 38-33.3-317 (2), which states:

(2) All financial and other records shall be made reasonably available for examination and copying by any unit owner and such owner's authorized agents.

That law further states at part (4):

(4) As used in this section, "reasonably available" means during normal business hours, upon notice of five business days...

This statute also indicates that the same availability of records to which the HOA is subject also applies to the property manager or others wherein it states at CRS 38-33.3-302 (3) (a):

(3)(a) Any managing agent, employee, independent contractor or other person acting on behalf of the Association shall be subject to this article to the same extent as the Association itself would be.

The Declarations also state at 5.6:

All Owners, First Mortgagees, insurers, or guarantors of a First Mortgage of a lot in the project shall, upon request, be entitled to:

- A. Inspect the books and records of the Association during normal business hours.
- B. Receive a copy of the financial statement of the Association for the preceding fiscal year at no charge.
- C. Written notices of all meetings of the Association and be permitted to designate a representative to attend all of such meetings.
- D. Current copies of this Declaration, By Laws, Articles of Incorporation, and any Rules and Regulations concerning the Project upon payment of the cost for such copies.

The law also provides that such records should be susceptible to electronic copying & transmittal and allows for a copying charge not to exceed the HOA's actual cost.

KIPLING SUN TOWNHOMES ASSOCIATION, INC

Privacy Policy-Adopted 7/14/05 as a directive to the property manager

The Board of directors adopts the following policy to assure confidentiality of member's records and information. In general, the policy of the HOA is to encourage individual member responsibility for their own information and not retain any records or information where there is no legitimate need.

The HOA policy, with respect to the following records where some concerns have been expressed is:

A. Phone numbers

Members should be advised that telephone numbers in the possession of the HOA, including its property manager are available as established by law and the governing documents to any of the 120 owners to whom the HOA belongs. Should any person not wish to have their telephone number recorded with the HOA that is their choice but the HOA will be unable to contact them by telephone should the need arise. For existing members, a notice shall be placed in the community newsletter immediately following adoption of this policy for members to express their wishes within 30 days that they do not wish their telephone numbers in the record. If a member so chooses, his/her telephone number shall be deleted from all HOA records.

B. E-mail addresses

Members should be advised that E-mail addresses in the possession of the HOA, including its property manager are available as established by law and the governing documents to any of the 120 owners to whom the HOA belongs. Should any person not wish to have their E-mail address recorded with the HOA that is their choice but the HOA will be unable to contact them by E-mail should the need arise. For existing members, a notice shall be placed in the community newsletter immediately following adoption of this policy for members to express their wishes within 30 days that they do not wish their E-mail addresses in the record. If a member so chooses, their E-mail address shall be deleted from all HOA records.

C. Social Security numbers & Driver's license information

The HOA or its property manager shall not, in any format whatsoever, retain any member's Social Security number or driver's license information. If the information is needed for banking transactions, that information shall remain solely in possession of the responsible Bank.

D. Banking numbers

The HOA or its property manager shall not, in any format whatsoever, retain any member's Bank account numbers or information. If the number is needed for banking transactions that information shall remain solely in possession of the responsible Bank.

E. Credit card information

Safeguarding of credit card information is the primary responsibility of the credit card holder. The HOA does not accept payment by credit card and has no legitimate need for credit card information. The HOA or its property manager shall not, in any format whatsoever, retain any member's Credit Card information. If this information is currently contained in any record of the HOA or its property manager, it shall be deleted. If the information is needed for banking transactions, that information shall remain solely in possession of the Bank.

F. Any health records

The HOA has no legitimate need for any health records. Any such information in the possession of the HOA or its property manager shall be immediately deleted or returned to the owner to whom such records belong.

G. Privileged communications

Certain communications with attorneys and many others are privileged and extensive definitions and details are contained in the law. Privileged communications as defined by law are not available for member's inspection or dissemination in any manner except as provided by law.

GENERAL:

1. Owners are entitled to see records as defined in law and the governing documents, it is their corporation, not that of the management company or the Board. 'Records' is a broad statement by design.
2. 'Privileged information' is specifically defined in many places in the statutes and is not within the authority or purview of the HOA Board to define it. The HOA must comply with law.
3. Members should be aware that with modern technology, telephone numbers and Email addresses are accessible through other means.

4. The HOA shall never sell for profit any of its information or lists.
5. Colorado and Federal laws and their Constitutions and the governing documents define this area.
6. The HOA has no powers to dictate the use or potential use of any such information.
7. When a person agrees to become a Board member of the HOA, a quasi-public body, they represent people by choice, and inherently forfeit some of their privacy.
8. The board relies upon it's agents to provide proper guidance in such areas, and requests its agents to provide disclosure of any and all information only to the extent required by local, state and or federal laws. Conversely, the board also requests its agents to adhere to any and all local, state or federal protection of privacy laws.

Policy: Enforcement policy and procedures:

Kipling Sun is a community where self-policing compliance with the various restrictions is encouraged. Some enforcement does occur through complaints of other residents or observation by others including the property manager. Generally a warning/information letter precedes fines. Fines constitute an amount due from the owner (see above.) The rules and Regulations of Kipling Sun provide for the following fine system for finable infractions of the governing documents. Any owner who has been fined may file for a hearing and appeal to the Board of Directors. In the event of such a hearing, personal appearance of the owner is required.

Fine System Adopted by the Board of Directors

The Board of Directors has adopted a fine system that will be implemented immediately. This fine system is an effort to maintain quality and continuity within our complex, as well as to be fair and considerate of all residents. The fine system shall be applied against the respective homeowner's account for any regulations or other violations by the homeowner, residents and/or the homeowner's tenants. The

Board of Directors has adopted the following system.

- 1st Violation = Letter issued
- 2nd Violation = \$25.00 Fine
- 3rd Violation = \$50.00 Fine
- 4th Violation = \$100.00 Fine
- Each subsequent violation = \$100.00 Fine

NOTE: Payments are applied first to fines and late fees and then to assessments. Any account delinquent in excess of three months dues is referred to legal counsel for collection or action. (Effective 5/12/05.)

Policy: Handling board member conflicts of interest policy and procedures:

*Because it is a requirement that a person be an owner of a unit within Kipling Sun to serve on its Board of Directors, no person shall be deemed to have a conflict solely because of ownership of property in Kipling Sun. With that clarification, the policy of Kipling Sun with respect to conflicts of interest is as stated in State statute. Current (2005) State Law addresses conflicts of interest of the Board of Directors. CRS 7-128-501 states: (**Conflicting interest transaction.**)*

(1) As used in this section, "conflicting interest transaction" means: A contract, transaction, or other financial relationship between a nonprofit corporation and a director of the nonprofit corporation, or between the nonprofit corporation and a party related to a director, or between the nonprofit corporation and an entity in which a director of the nonprofit corporation is a director or officer or has a financial interest.

(2) No loans shall be made by a corporation to its directors or officers. Any director or officer who assents to or participates in the making of any such loan shall be liable to the corporation for the amount of such loan until the repayment thereof.

(3) No conflicting interest transaction shall be void or voidable or be enjoined, set aside, or give rise to an award of damages or other sanctions in a proceeding by a member or by or in the right of the nonprofit corporation, solely because the conflicting interest transaction involves a director of the nonprofit corporation or a party related to a director or an entity in which a director of the nonprofit corporation is a director or officer or has a financial interest or solely because the director is present at or participates in the meeting of the nonprofit corporation's board of directors or of the committee of the board of directors that authorizes, approves, or ratifies the conflicting interest transaction or solely because the director's vote is counted for such purpose if:

(a) The material facts as to the director's relationship or interest and as to the conflicting interest transaction are disclosed or are known to the board of directors or the committee, and the board of directors or committee in good faith authorizes, approves, or ratifies the conflicting interest transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors are less than a quorum; or

(b) The material facts as to the director's relationship or interest and as to the conflicting interest transaction are disclosed or are known to the members entitled to vote thereon, and the conflicting interest transaction is specifically authorized, approved, or ratified in good faith by a vote of the members entitled to vote thereon; or

(c) The conflicting interest transaction is fair as to the nonprofit corporation.

(4) Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes, approves, or ratifies the conflicting interest transaction.

(5) For purposes of this section, a "party related to a director" shall mean a spouse, a descendent, an ancestor, a sibling, the spouse or descendent of a sibling, an estate or trust in which the director or a party related to a director has a beneficial interest, or an entity in which a party related to a director is a director, officer, or has a financial interest.

Policy: Reserve fund and investment policy:

Kipling Sun invests reserve fund amounts in excess of those dollars immediately required in various interest bearing accounts. Efforts are made to invest funds at the best possible yields commensurate with the needed maturities when various funds need to be reinvested. Kipling Sun only maintains accounts at institutions to the extent the deposits are guaranteed by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation.

Policy: Architectural review policy and procedures:

The directives for Kipling Sun architectural reviews, policies and procedures can be found in the Architectural Guidelines, available in full on the website. Review of the full guidelines is encouraged. Architectural requests are submitted through the Property Manager and reviewed by the 'Declarations mandated' three person Architectural Control Committee and approved or rejected with the committee's recommendations by the Board of Directors. As contained in the Architectural Guidelines, In general those procedures for owners are:

Architectural Improvement Process:

1. Procure and complete improvement request form.
2. Submit to Board with plat survey, detailed plan, contractor liability form, and county permits.

3. Arrange for architectural committee site review, ACC and Board approval.
4. Coordinate contractor activity with Landscape Maintenance Contractor (LMC) for timely project completion.
5. Notify Board of project completion and arrange Board inspection for final approval.

Policy: Procedures for claims submissions to association's insurance carrier:

Kipling Sun carries the insurance required by the Declarations on the structures and other items. We encourage owners to carry a 'HO-6' policy to insure their improvements in their units and their personal property. Owners should also explore 'loss assessment coverage' in these policies. As the HOA is the insured under this policy, communications with the insurance company or insurance broker should be confined to the HOA or its property manager. Should an owner need to file a claim involving the HOA's insurance, they should contact the property manager. Subsequent to the property manager notifying the proper insurer, that insurance company may communicate with the homeowner directly. If the unit owner is deemed to be 'at fault' or 'negligent' in causing the damages; the owner may be held responsible for the full amount of the deductible.

Policy: Procedures regulating flags/flagpoles:

The Kipling Sun policy for this area is maintained in the Architectural Guidelines and states:

STANDARDS FOR FLAG DISPLAY:

POLICY:

It is the policy of the HOA to allow for display of American or Military Service flags, consistent with State Law, so long as the flags do not exceed two in number, are less than 5' x 7' in size and are displayed from a window or flagpole affixed to the owner's unit or garage.

CRS 38-33.3 (106.5)(1)(a) & (b) states:

The display of the American Flag by a unit owner on that unit owner's property, in a window of the owner's residence or on a balcony adjoining the unit owner's property if the American Flag is displayed in a manner consistent with the Federal Flag Code, PL 94-344; 90 Stat. 810; 4 USC 4TO10. The Association may adopt reasonable rules regarding the placement and manner of display of the American Flag. The Association rules may regulate the location and size of flags and flagpoles, but shall not prohibit the installation of a flag or flagpole.

The display by a unit owner of a service flag bearing a star denoting the service of the unit owner or a member of the unit owner's immediate family in the active or reserve military service of the United States during a time of war or armed conflict, on the inside of a window or door of the unit owner's residence. The Association may adopt reasonable rules regarding the size and manner of display of service flags except that the maximum dimensions allowed shall not be less than nine inches by sixteen inches.

Policy: Procedures regulating political signs:

The Kipling Sun policy for this area is maintained in the Architectural Guidelines and states:

STANDARDS FOR DISPLAY OF POLITICAL SIGNS:

POLICY:

It is the policy of the HOA to allow for display of Political signs, consistent with State Law & Jefferson County ordinances, placed in a window or within the unit owner's property boundaries

so long as no single such sign exceeds four square feet in area. Such signs may only be placed 45 days prior to the advertised election and may remain no more than 7 days after such election.

CRS 38-33.3 (106.5)(1)(c)(I) & (II) states:

The display of a political sign by a unit owner on that unit owner's property or in a window of the unit owner's residence; except that an Association may prohibit the display of political signs earlier than 45 days before the day of an election and later than seven days after an election day. An Association may regulate the size and number of political signs that may be placed on a unit owner's property if the Association's regulation is no more restrictive than any applicable city, town, or county ordinance that regulates the size and number of political signs on residential property. If the city, town, or county in which the property is located does not regulate the size and number of political signs on residential property, the Association shall permit at least one political sign per political office or ballot issue that is contested in a pending election, with the maximum dimensions of 36 inches by 48 inches on a unit owner's property.

As used in this paragraph, political sign means a sign that carries a message intended to influence the outcome of an election, including supporting or opposing the election of a candidate, the recall of a public official, or the passage of a ballot issue.

Policy: Emergency Vehicle parking policy and procedures:

The Kipling Sun policy for this area is maintained in the Architectural Guidelines and states:

EMERGENCY VEHICLES:

POLICY:

It is the policy of the HOA to allow for the parking of emergency vehicles in visitor parking spaces consistent with State Law so long as the owner of such vehicle complies with all statutory criteria and furnishes independent written evidence of meeting all the requirements of law to the HOA's property manager, the ACC and the HOA Board. No parking whatsoever is allowed in the fire lanes or on the drives or drive aprons.

CRS 38-33.3 (106.5)(d)(I), (II), (III) & (IV) states:

The parking of a motor vehicle by a unit owner on a street, driveway or guest parking area in the common interest community is allowable if the vehicle is required to be available at designated periods at the unit owner's residence as a condition of the unit owner's employment and all of the following criteria are met:

1. The vehicle has a gross vehicle weight of ten thousand pounds or less,
2. The unit owner is a bona fide member of a volunteer fire department or is employed by an emergency service provider as defined in CRS 29-11-101 (1.6),
3. The vehicle bears an official emblem, or other visible designation of the emergency service provider and parking of the vehicle can be accomplished without obstructing emergency access or interfering with the reasonable needs of other unit owners to use streets and driveways within the community.

Policy: Procedures to be used by association in cooperating with owners selling units:

Kipling Sun's procedures for owners selling their units is as follows:

1. *The selling realtor should be notified of the name and address of the property manager, available elsewhere*

2. *All documents necessary for disclosure to the buyer are available on the HOA website (Declarations; By Laws; Rules and Regulations; Architectural Guidelines; & HOA Policies and Budget.)*
3. *The title company will request a 'status letter' from the property manager detailing any amounts owing attributable to that unit. The property manager will furnish this 'status letter' to the title company.*
4. *There is a charge from the property manager in the amount of \$100 for the preparation of the status letter and other charges. This is the responsibility of the seller and is paid at closing.*

Policy: Alternative dispute resolution policy and procedures:

Pursuant to 38-33.3 et seq, Kipling Sun Townhomes Association, Inc. believes that the cost, complexity, and delay inherent in court proceedings make litigation a particularly inefficient means of resolving neighborhood disputes. Therefore, the association encourages the use of alternatives to the filing of a complaint in the judicial system between unit owners and the association in situations that do not involve an imminent threat to the peace, health, or safety of the community. Alternative methods adopted by the association and unit owners include negotiation, mediation and arbitration. For any step in the dispute resolution process, the parties are not waiving their right to employ legal counsel at their own expense to assist them.

Negotiation Either a unit owner or the association may initiate a request for dispute resolution, stating in writing the nature and details of the dispute. Within fifteen (15) days of receipt of such request, unless otherwise extended by written agreement, a meeting shall be held between the parties to begin a good faith attempt to negotiate a resolution. Through negotiation, the parties will communicate directly with each other in an effort to reach an agreement that serves the interests of both parties. Should the dispute pertain to property issues, each party will be granted the right to inspect the alleged defects or problems at a time convenient to everyone involved.

Mediation. If the dispute is not resolved by negotiation, any party may request in writing that the issue be submitted to mediation, and the parties agree to mediate the dispute prior to seeking other remedies. The parties agree to participate in good faith in the mediation. The role of the mediator is to facilitate further negotiation between the parties. The mediator will not have power to decide how to resolve the dispute but will use recognized, accepted mediation techniques to assist the parties in making that decision. The mediator shall be selected by a consensus of the parties involved within 15 days of the receipt of the request. Should the parties not select a mediator within this time period, the issue will be referred to Jefferson County Mediation Services (303-271-5060) who will assign a mediator to the case or who will offer various other options. Any cost of mediation will be shared equally among the parties unless they and the mediator agree otherwise.

Arbitration. If the dispute is not resolved by mediation, the parties shall submit the matter to binding arbitration. This means that the power to decide the outcome of the dispute will be assigned to the arbitrator, and the parties agree to accept the decision of the arbitrator as final and binding on them. Judgment may be enforced in any court having jurisdiction. In making this agreement, the parties are waiving all rights to appeal the decision of the arbitrator to a court of law and are waiving their rights to file a lawsuit and to have a jury resolve any dispute between them.

Colorado law and the Colorado rules of civil procedure and evidence shall apply to the arbitration proceeding. The parties shall mutually agree on an arbitrator. If the parties cannot agree on the selection of an arbitrator within 30 days after the request has been received, the issue will be referred to Jefferson County Mediation Services (303-271-5060) who will offer various options. Any cost of arbitration will be shared equally among the parties unless they and the arbitrator agree otherwise. The arbitrator shall have the authority to require one party to pay all or a portion of the other party's legal fees.

Policy: Maintenance Responsibility:

It is the policy of Kipling Sun Townhomes to adhere to the Declarations with respect to maintenance responsibilities. Specifically, Article VIII where the responsibility is stated in particular and other portions of the Declarations or other governing documents may further apply:

Section 8.1. By the Owner For purposes of maintenance, repair, alteration and remodeling, an Owner shall have the obligation to pay assessments to the Association to maintain, repair, alter and remodel his individual Lot. The obligation to maintain any Privacy Fence or other structure enclosing a patio, balcony, storage room, yard or deck area shall be that of the Owner. No Owner shall, however, make any changes or alterations of any type or kind whatsoever to the exterior surfaces of his Dwelling Unit or to other Lot Improvements without prior approval of the Association's Architectural Control Committee pursuant to Article XI hereunder. An Owner shall maintain or, as directed by the Association, pay assessments to maintain and keep in good repair and in a clean, safe, attractive and sightly condition, the Lot, Dwelling Unit and all Lot Improvements, including landscaping. An Owner shall reimburse the Association for any expenditure (including deductible amounts under Insurance policies) incurred for replacing or repairing of any parts of the Common Area and Common Area Improvements damaged through the fault of an Owner, or the Owner's guests, invitees, or tenants, and the Association shall be entitled to assess such Owner for such amounts which shall be payable, collectible, and enforceable in the same manner as assessments pursuant to Article IX. If any Owner fails to carry out or neglects the responsibilities set forth in this paragraph, the Association may fulfill the same and charge such Owner therefor, and such amounts so charged shall be payable, collectible and enforceable in the same manner as assessments pursuant to Article IX.

Section 8.2. By the Association In addition to the maintenance upon the Common Area, including the Common Area Improvements, the Association shall provide exterior maintenance upon each Lot which is subject to assessment hereunder as follows: paint, repair, replace and care of roof, gutters, downspouts, exterior building surfaces, walks, landscaping, maintenance of the front, side and rear Lots, except patio areas, and other similar exterior improvements. Such exterior maintenance shall not include the maintenance or the repair of entry doors, frames, or sliding glass doors and windows, which shall be the sole responsibility of the Owner. Determination of whether such repair or maintenance is the obligation of the Association shall rest solely with the Association, which shall have the sole responsibility for determining the kind and type of materials used in such repair and maintenance.

In the event that the need for maintenance and/or repair of a Lot and its Improvements or of the Common Area and its Improvements is caused through the

willful or negligent acts of the Owner, his family, guest, or invitees, the cost of such maintenance and/or repairs shall be added to and become a part of the assessment to which each Owner is subject, as further set forth in Article IX hereunder.

Policy: Insurance Responsibility:

It is and has been the policy of Kipling Sun Townhomes to use a qualified insurance broker to determine the propriety of insurance coverage according to the Declarations. Current Insurance coverage is summarized at the beginning of this section. The Association wishes to advise owners that the HOA insurance may not cover their unit or personal belongings (see below), it is the policy of the Association since April 2003 to advise unit owners to seek counsel with their own qualified insurance representative or broker to ascertain the need for the proper unit owner's coverage including, but not limited to 'HO-6' and 'loss assessment' coverage.

"THE ASSOCIATION MAY OBTAIN PROPERTY INSURANCE COVERING CERTAIN PORTIONS OF THE COMMON INTEREST COMMUNITY. ANY PROPERTY INSURANCE MAINTAINED BY THE ASSOCIATION MAY NOT COVER YOUR UNIT (OR PORTIONS OF YOUR UNIT) AND MAY NOT COVER THE PERSONAL BELONGINGS AND OTHER CONTENTS OF YOUR UNIT. YOU SHOULD NOT ASSUME THAT ANY PROPERTY INSURANCE MAINTAINED BY THE ASSOCIATION WILL PROTECT YOU AGAINST DAMAGE TO OR LOSS OF YOUR UNIT AND ITS CONTENTS. YOU SHOULD DETERMINE WHAT INSURANCE COVERAGE MAY BE REQUIRED TO PROTECT YOU AGAINST DAMAGE TO OR LOSS OF YOUR UNIT AND ITS CONTENTS. YOU SHOULD OBTAIN PROFESSIONAL ADVICE REGARDING INSURANCE COVERAGE OF YOUR UNIT OR ITS CONTENTS."

With respect to the Association's coverage mandated in the Declarations, Article XII states in part:

Section 12.1. Comprehensive General Liability and Property Insurance Comprehensive general liability and property damage insurance shall be purchased by the Board of Directors and shall be maintained in force at all times, the premiums thereon to be paid by the Association as a Common Expense. If Declarant pays the premium, it shall be entitled to reimbursement from the Association. The insurance shall be carried with reputable companies authorized to do business in the State of Colorado, in such amounts as the Board may determine; the insurance carrier should have a current rating by Best's Insurance Reports of VI or better, or a financial rating of Class VI and a general policyholder's rating of at least A. If the insurer does not meet this rating requirement, the insurer must be reinsured by a company that does have a current rating by Best's Insurance Reports of VI or better.

A comprehensive policy of general liability insurance shall be in force for minimum amount of \$1,000,000 per occurrence, covering all claims for bodily injury and/or property damage arising out of a single occurrence, such coverage to include protection against liability for non-owned and hired automobiles, liability for property of others, and, if applicable, host liquor liability and other risks which are customarily covered with projects similar in construction, location, and use. The policy or policies shall name as insured all of the Owners and the Association. Declarant shall be named as an additional insured on such policy or policies until such time as Declarant shall have conveyed all the Dwelling Units in the Project. The policy or policies shall insure against loss arising from perils in both the Common Areas and on the Lots and shall include contractual liability coverage to protect against such liabilities as may arise under

the contractual exposures of the Association or the Board of Directors.

The policy or policies shall contain a "severability of interest" clause or endorsement, which shall preclude the insurer from denying a claim of an Owner or the Association because of negligent acts of the Association or other Owners.

Section 12.2. Fire and Hazard Insurance Fire and other hazard insurance shall be purchased by the Board of Directors and shall thereafter be maintained in force at all times, the premiums thereon to be paid by the Association as a Common Expense, such policy to cover all Common Area Improvements and all Buildings and Lot Improvements in the Project. Policies shall provide for a standard noncontributory mortgagee clause in favor of each First Mortgagee whether or not named therein, and shall provide that the policy cannot be canceled by either the insured or the insurance company until after ten (10) days prior written notice to all insureds thereunder, including each Owner and each First Mortgagee. The policies shall also provide that the interest of each First Mortgagee in the insurance shall not be invalidated by any action or neglect of the Board of Directors, Owners, or their tenants, invitees or agents; The policies shall further provide for waiver by the insurer of any policy provisions which would render the Mortgagee clause invalid by reason of failure of the Mortgagee to notify the insurer of any hazardous use or vacancy in any Dwelling Unit and any policy requirement that the Mortgagee pay the premium thereon. The policy or policies shall be of a master or blanket type with a standard all risk endorsement, and insure against loss from perils therein including coverage on all of the Improvements in the Project, except such as may be separately insured, and except land, foundation, excavation and other items normally excluded from coverage. Such policy or policies shall contain extended coverage, vandalism, and malicious mischief endorsements. The Improvements to be insured under this clause shall be continually, insured to value, and the policy or policies shall contain replacement cost insurance. If reasonably available, the policy or policies shall contain a stipulated amount clause, or determinable cash adjustment clause, or similar clause to permit a cash settlement covering specified value in the event of destruction and a decision not to rebuild. The policy or policies shall name as insured all of the Owners, the Association, and the Declarant, so long as Declarant is the Owner of any of the Dwelling Units in the Project. The policy or policies shall also cover personal property owned by the Association or in common by the Owners, their tenants, invitees or agents, and shall further contain a waiver of subrogation rights by the carrier as to negligent Owners. If Declarant pays the premium for said policy or policies, it shall be entitled to reimbursement from the Association.

The insurance shall be carried with reputable companies authorized to do business in the State of Colorado, in such amounts as the Board may determine. The insurance carrier should have a current rating by Best's Insurance Reports VI or better or a financial rating of Class VI and a general policyholder's rating of at least A. If the insurer does not meet this rating requirement, the insurer must be reinsured by a company that does have a current rating by "Best's Insurance reports of VI or better.

Policy: Capital Reserve Fund and Reserve Study:

It is and has been the policy and practice of Kipling Sun Townhomes to maintain, as required, a Capital Reserve Fund to fund the repair and replacement of Capital Assets. This Capital Reserve fund is financed through an annual contribution from the Association's Operating Fund and consequently the monthly dues. The amount of the annual contribution to the Capital Reserve Fund is calculated in a Reserve Study wherein the remaining useful lives and necessary contribution for proper amortization is calculated for at least 30 years into the future. This Reserve Study is reviewed annually and updated as necessary including adjustments to the funding plan.

Policy: Code of Conduct for Board Members:

RESOLUTION: The Association hereby adopts the following code of conduct for Directors. Each Director and the Board as a whole shall adhere to the following:

1. Directors acknowledge their "Duty of Care" and will strive to satisfy that duty at all times in a manner they reasonably believe to be in the best interests of the community.
2. Exercise sound business judgment and follow established management practices.
3. Balance the needs and obligations of the community as a whole with those of individual homeowners and residents.
4. Understand the Association's governing documents and become educated with respect to applicable state and local laws, and manage the community association accordingly.
5. Establish committees or use other methods to obtain input from owners and non-owner residents.
6. Conduct open, fair and well-publicized elections.
7. Welcome and educate new members of the community—owners and non-owner residents alike.
8. Encourage input from residents on issues affecting them personally and the community as a whole.
9. Encourage events that foster neighborliness and a sense of community.
10. Conduct business in a transparent manner when feasible and appropriate.
11. Allow homeowners access to appropriate community records, when requested.
12. Collect all monies due from owners and non-owner residents.
13. Devise appropriate and reasonable arrangements, when needed and as feasible, to facilitate the ability of individual homeowners to meet their financial obligations to the community.

14. Provide a process which residents can use to appeal decisions affecting their non-routine financial responsibilities or property rights—where permitted by law and the Association’s governing documents.
15. Initiate foreclosure proceedings only as a measure of last resort.
16. Make covenants, conditions and restrictions as understandable as possible, adding clarifying “lay” language or supplementary materials when drafting or revising the documents.
17. Provide complete and timely disclosure of personal and financial conflicts of interest related to the actions of community leaders, e.g., officers, the board and committees.
18. No Director shall use his/her position for private gain, including for the purpose of enhancement of his/her financial status through the use of certain contractors or suppliers.
19. No Director shall solicit or accept, directly or indirectly, any gifts, gratuity, favor, entertainment, loan or any other thing of monetary value from a person who is seeking to obtain contractual or other business or financial relations with the Association.
20. No Director shall accept a gift or favor made with intent of influencing decision or action on any official matter.
21. No Director shall receive any compensation from the Association for acting as a volunteer.
22. All board members will treat other board members, owners and residents with courtesy and respect.
23. Language and decorum at Board meetings will be kept professional.
24. Personal attacks against owners, residents, managers, service providers and Directors are prohibited and are not consistent with the best interest of the community.
25. No Director shall willingly misrepresent facts to the members of the community for the sole purpose of advancing a personal cause or influencing the community to place pressure on the Board to advance a personal cause.
26. No promise of anything not approved by the Board as a whole can be made by any Director to any subcontractor, supplier, or contractor during negotiations.
27. No Director shall interfere with a contractor engaged by the Association while a contract is in progress.
28. All communications with Association contractors shall go through the Manager, or, when appropriate, the Board President, or be in accordance with policy.
29. No Director shall harass, threaten, or attempt through any means to control or instill fear in any member, Director or agent of the Association.

30. Any Director convicted of a felony while in office shall voluntarily resign from his/her position.
31. No Director shall knowingly misrepresent any facts to anyone involved in anything with the community which would benefit himself/herself in any way.
32. Directors acknowledge that homeowners have the right to:
 - a. A responsive and competent community association.
 - b. Honest, fair and respectful treatment by community leaders and managers.
 - c. Participate in governing the community association by attending meetings, serving on committees and standing for election.
 - d. Access appropriate association books and records.
 - e. Prudent expenditure of fees and other assessments.
 - f. Live in a community where the property is maintained according to established standards.
 - g. Fair treatment regarding financial and other association obligations, including the opportunity to discuss payment plans and options with the association before foreclosure is initiated.
 - h. Receive all documents that address rules and regulations governing the community association—if not prior to purchase and settlement by a real estate agent or attorney, then upon joining the community.
 - i. Appeal to appropriate community leaders those decisions affecting non-routine financial responsibilities or property rights.

POLICY: SNOW REMOVAL POLICY

Snow and ice removal is a necessity in the Kipling Sun community. Pursuant to the Declaration for Kipling Sun, the Association has the obligation to perform snow removal in the community in such a manner as it deems to be in the best interests of the community, and may, from time-to-time, enter into a contract or contracts with independent contractors for snow removal.

Kipling Sun is a community where there are differing conditions due to its orientation that creates unique snow removal challenges. Due to the limited available space in the Community, snow may pile up from being plowed or shoveled which may create hazardous conditions for owners, their family members, tenants, guests, and invitees, and other persons to play on, be around, or try to remove. It also may restrict available parking in the community. Further, ice may buildup on the sidewalks and streets in the community as a result of snow fall or snow removal which may similar create dangerous conditions.

The owners and occupants must ensure not only their own safety but the safety of, their family members, tenants, guests, and invitees with regard to potentially hazardous conditions and protect their personal property from damage from such conditions while in the community. The

Association does not guarantee or promise protection against such hazards and is not liable for any injury or damage caused by such hazards.

Pursuant to the Declaration, owners will be liable for any injury or damage caused by any willful or negligent act of the owner, his/her family, guests or invitees. Therefore, the owners should be aware that if any such persons take it upon themselves to perform snow or ice removal, they could be liable for any injury they cause to others, any damage they cause to the common area or the property of others, and any additional expenses they cause the Association to incur.

Potentially Hazardous Conditions as a Result of Snowfall or Low Temperatures (this list is not meant to be all-inclusive and other hazardous conditions may exist):

1. Piling of snow on the side of streets or on common area.
2. Snow blocking vehicles.
3. Icy streets and sidewalks.
4. The snow plowing or removal equipment.
5. Rocks and other items contained in piles of snow.
6. Pedestrian and vehicular traffic.
7. Man-made hazards created by owners, occupants or others.

To Avoid Such Potential Hazardous Conditions, Owners and Occupants Shall Do the Following:

1. IMMEDIATELY INFORM THE ASSOCIATION, THROUGH ITS MANAGER, OF ANY POTENTIALLY HAZARDOUS CONDITION SO THE ASSOCIATION COULD ADDRESS THE ISSUE.
2. When snowfall is anticipated, take steps to avoid having their vehicles trapped by the plowing of snow in the community. Such steps may require the owner to park the vehicle outside of the community.
3. Drive extra carefully in the community.
4. Watch for cars or other vehicles driving in the community
5. Walk carefully. When walking on the community sidewalks or streets, make sure you walk on a clear path not covered with snow or ice and watch out for cars or other vehicles driving in the community.
6. Not run or play on piles of snow, the sidewalks, the streets, or on any potentially hazardous condition.
7. Not throw snowballs or icicles.
8. Not Interfere in any way with the snow or ice removal by the Association or its contractors

9. Avoid performing snow or ice removal on their own, except in an emergency situation. In the event of an emergency, the owners and occupants act at their own risk and peril.
10. Avoid performing any act that is likely increase the risk of injury or damage to others or likely to create a hazardous condition that did not previously exist.
11. Avoid performing any act that is likely increase the expense to the Association.
12. Be courteous to the Association's manager, board members, employees, and contractors.
13. MAKE SURE THAT THEIR FAMILY MEMBERS, GUESTS AND INVITEES ARE AWARE OF POTENTIALLY HAZARDOUS CONDITIONS AND FOLLOW THESE RULES.

Owners and occupants should also be aware that extreme weather conditions may affect the Association's or its contractor's ability to perform snow or ice removal on an expedited or timely basis. In such conditions, the owners and occupants must be patient and courteous with the Association and its agents and contractors.

If an owner or occupant would like more information about the specifications adopted by the Association for snow and ice removal in the community, he or she may contact the Association, through its manager.

POLICY-INVESTMENT POLICY

Kipling Sun Townhomes Investment Policy Final as approved by the Board - June 17, 2010

I. Governing Authority

The investment program shall be operated in conformance with federal and applicable Colorado state legal requirements and the governing documents for Kipling Sun Townhomes (KS).

II. Scope

This policy applies to the investment of all funds held on behalf of Kipling Sun Townhomes, especially Capital Asset Reserve Funds (CARF), but including any available Operating monies which exceed liquidity requirements.

Pooling of Funds: Excluding cash of restricted or special funds, KS may elect to consolidate cash from all funds in order to maximize investment earnings and to efficiently manage investment pricing, safekeeping and administration. Investment income will be allocated to various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

KS will minimize credit risk, which is the risk of loss due to the failure of the security issuer by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the KS will do business in accordance with Section V;
- **Limiting investments in instruments of a single financial institution to the amount insured by the FDIC;**
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

KS will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity (“laddering”);
- Investing Operating funds and CARF funds required within 6 months in savings accounts, money market mutual funds, or similar investment pools.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with budgeted cash requirements to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, a portion of the portfolio may be placed in money market mutual funds or certificates of deposit which offer same-day liquidity or waiver of early withdrawal fees. Alternatively, the portfolio may include securities with active secondary or resale markets.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The majority of investments shall be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

IV. Standards of Care

1. Prudence

The standard of prudence to be used by the designated investment manager shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The investment manager acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Members of the Finance Committee and the investment manager shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Finance Committee members and the investment manager shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of KS.

3. Delegation of Authority

Authority to manage the investment program is delegated to and shall be the responsibility of the Finance Committee, which may designate one of its members to take the lead responsibility as "investment manager". The investment manager shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. The designated member shall be responsible for all transactions undertaken and shall promptly report investment transactions to the Finance Committee and the Board of Directors. Evidential matter supporting investments shall be held for safekeeping by the issuing Bank or by the Community Manager if an investment is a marketable security not issued by a Bank.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

Authorized Financial Institutions and Depositories

As set forth in the governing documents of KS, the powers and duties of the Board of Directors include:

- J. To establish bank accounts for the common treasury and all separate funds which are required or may be deemed advisable by the Board of Directors.

and....

Under provision 5.7, the KS Treasurer "shall be responsible for the deposit...of monies...in such depository...as may be designated by the Board of Directors"

Accordingly, all investment securities will be those offered by or through a bank which can offer investment services. Banks who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of state registration
- Certification of having read and understood and agreeing to comply with KS's investment policy.
- Evidence of FDIC insurance coverage to the maximum permitted by law.

An annual review of the financial condition and registration of banks provided KS with investment services will be conducted by the investment manager.

Safekeeping and Custody

1. Safekeeping

Securities will be held by an independent third-party custodian selected by the Finance Committee as set forth in IV.3 above. The safekeeping institution shall annually provide a copy of the Evidential Matter supporting the securities held.

2. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

VII. Suitable and Authorized Investments

1. Investment Types

The following investments will be permitted by this policy:

- Certificates of deposit, savings accounts or other evidences of deposit at financial institutions, U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Investment-grade obligations of state and local governments and public authorities;

VIII. Investment Parameters

1. Diversification

The investments shall be diversified by:

- investing in securities with varying maturities,
- limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- limiting investment in securities that have higher credit risks, and
- investing continuously a portion of the portfolio in readily available funds such as money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. Maximum Maturities

To the extent possible, KS shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, KS generally will not directly invest in securities maturing more than five (5) years from the date of purchase. As the CARF Fund grows, however, it may become appropriate to consider investing in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as interest bearing savings accounts and money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

3. Competitive Bids

The investment manager shall obtain competitive bids from at least two financial institutions on all purchases of investment instruments purchased on the secondary market.

IX. Reporting

1. Methods

The investment manager shall prepare an investment semi-annual report to the KS Board of Directors to include a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the six (6) month reporting period. This management summary will be prepared in a manner which will allow the KS Board of Directors to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity.
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

X. Policy Considerations

1. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be temporarily exempted from the requirements of this policy. Investments must come in conformance with the policy within six months of the policy's adoption or the governing body must be presented with a plan through which investments will come into conformance.

2. Amendments

This policy shall be reviewed annually. Any changes must be approved by the investment manager and the Board of Directors at an appropriate meeting. Annual approval shall be noted in the minutes.