

NELSON FARM HOMEOWNER'S ASSOCIATION, INC.
POLICY REGARDING RESERVES

Adopted February 9th, 2010

The following policy has been adopted by Nelson Farm Homeowner's Association, Inc. ("Association") pursuant to the provisions of C.R.S. 38-33.3-209.5, in accordance with the Association's policy regarding adoption and amendment of policies.

Purpose: To adopt a policy addressing the need for a reserve study, funding of any work recommended by the reserve study and projected sources of funding, and whether the reserve study is based on a physical analysis and financial analysis. It is the Board's desire to create and maintain adequate reserves to provide for the orderly maintenance, repair, replacement and improvement of the common areas so as to minimize the risk to the membership of special assessments, deferred maintenance, or unfunded losses.

NOW, THEREFORE, IT IS RESOLVED that the Board of Directors does hereby adopt the following policy regarding reserves:

Need for Reserve Study

1. The Association is obligated to maintain, repair, replace or improve certain improvements within the community.

Reserve Study

2. The Association will conduct periodic reserve studies based on recommendations obtained from an independent, qualified reserve study professional.
3. Depending on available resources, the Association may either engage a third-party or may make in-house interim updates to a professional reserve study and may adjust the schedule for updating the reserve study. An update to a reserve study may result from an on-site review of the property or an off-site review of the reserve study and the Association's governing documents. The Board of Directors should consider the following factors when determining the schedule for interim updates to a reserve study:
 - (a) Significant additions or replacements to the common elements since the last reserve study;
 - (b) Wear and tear to common elements due to unseasonable weather or lack of maintenance;
 - (c) Technological or product development improvements that could result in cost savings;
 - (d) Substantial increases in cost of materials or labor;
 - (e) Any scheduled maintenance, repairs, or replacements that the Association deferred or accelerated;
 - (f) Whether reserve income was received as planned;

- (g) Whether reserve expenditures were incurred as planned;
- (h) The Association's selected method of funding reserves.

4. The full reserve study will consist of a physical analysis and a financial analysis. Interim updates may consist of a physical analysis, a financial analysis, or both. A physical analysis includes an inventory of all improvements that the Association is responsible for maintaining, repairing, replacing or improving and a visual inspection of those items to determine their existing condition. A financial analysis includes an evaluation of the estimated remaining life of an item, the adequacy of existing reserve funds, projected future reserve income, projected future reserve needs, and the ability to meet future reserve needs under the existing funding plan.

5. The last reserve study prepared for the Association was completed on August 27, 2009.

6. As of the date of this policy, the Association plans to update its reserve study every five years.

Funding Plan

7. The Association does not allocate reserve funds for improvements costing less than \$1,000.00 to repair or replace.

8. The Board of Directors will endeavor to maintain the Association's reserve fund balance at or above 50% of the fully-funded amount by allocating a portion of regular annual assessments to the reserve fund. Should unforeseen circumstances result in the reserve fund balance falling below 50% of the fully-funded amount, the Board will endeavor to bring the fund balance back to 50% within three years by increasing the allocations from regular annual assessments, or by special assessments, or both.

9. The Association may elect to apply funds from its operating account to maintenance, repair or replacement costs otherwise covered by reserve funds.

10. The Association will invest all reserve funds in accordance with the Association's policy regarding investment of reserve funds.

Nelson Farm Homeowner's Association,
Inc.

By: [Signature] Pres Title

This Policy Regarding Reserves was adopted by the Board of Directors on the 9th day of February, 2010, effective the 9th day of February, 2010, and is attested to by the Secretary of Nelson Farm Homeowner's Association, Inc.

[Signature]
Secretary