

**THE SHORES AT THE HIGHLANDS ASSOCIATION, INC.  
POLICY REGARDING RESERVES**

Adopted December 29, 2021

The following policy has been adopted by The Shores at The Highlands Association, Inc. (the "Association") pursuant to the provisions of C.R.S. § 38-33.3-209.5, at a regular meeting of the Board of Directors (the "Board").

**Purpose:** To adopt a policy addressing the need for a reserve study, projected sources and funding of any expenditures recommended by the reserve study, and performance of a reserve study based on physical and financial analysis. Unless otherwise defined in this policy, capitalized terms herein shall have the same meaning as in the Association's Declaration, Articles of Incorporation, or Bylaws.

THEREFORE, IT IS RESOLVED that the Board does hereby adopt the following Policy Regarding Reserves:

**Need for Reserve Study**

1. The Association is obligated to maintain, repair, replace, or improve the Common Areas and capital improvements within the Project.

**Reserve Study**

2. The Association will conduct periodic reserve studies of the Common Areas and improvements, including a financial analysis of the requisite reserve, by either using an independent, qualified reserve study professional or performing an internal examination.

3. The Board will monitor changes in circumstances that may make a full reserve study or an interim update advisable or necessary. Depending on available resources, the Association may either engage a third-party or make in-house interim updates to a professional reserve study in evaluating and adjusting the schedule for updating the reserve study. An update to a reserve study may include an on-site review of the property or an off-site review of the prior reserve study and the Project Documents. The Board should consider the following factors in conducting and when determining the schedule to conduct and update a reserve study:

- a. Significant additions or replacements to the Common Areas since the last reserve study;
- b. Wear and tear to Common Areas 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 or shortages in 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; and
- h. The Association's selected method of funding reserves.

4. A full reserve study will consist of both a physical and financial analysis, while an interim update may be limited to the relevant aspects of a physical and/or financial analysis. A physical analysis includes an inventory and visual inspection of all Common Areas and improvements that the Association is responsible for maintaining, repairing, replacing, or improving to assess their existing condition and remaining useful life. A financial analysis includes an evaluation of the estimated cost to maintain, repair, replace, or improve such assets considering their remaining useful life, the adequacy of existing reserve funds, projected future reserve income, projected future reserve needs, and the ability to meet future reserve expenditure needs under the existing funding plan.

5. The Association plans to conduct or update a reserve study at least every five (5) years.

#### Funding Plan

6. The Association does not allocate reserve funds for improvements costing less than \$1,000 to repair or replace. The Board will periodically assess the adequacy of the Association's financial reserves for Common Areas and improvements to avoid or minimize special assessments, deferred maintenance, and unfunded losses.

7. The Board will endeavor to maintain the Association's reserve fund balance at or above seventy percent (70%) 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 seventy percent (70%) of the fully-funded amount, the Board will develop and execute a plan to increase the fund balance to seventy percent (70%) within three (3) years by increasing the allocations from regular annual assessments and/or by special assessments.

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

9. The Association will invest all reserve funds in accordance with its Reserve Fund Investment Policy.

The Shores at The Highlands Association, Inc.



President

This Policy Regarding Reserves was adopted by the Board of Directors on the 29<sup>th</sup> day of December, 2021, effective the 29<sup>th</sup> day of December, 2021, and is attested to by the Secretary of The Shores at The Highlands Association, Inc.



Secretary