

NORTHWOODS CONDOMINIUM ASSOCIATION

POLICY STATEMENT - CAPITAL REPLACEMENT RESERVES

The Northwoods Condominium Association (the "Association") is a common interest association of owners that was organized as a Colorado nonprofit corporation. The Association is subject to the terms and provisions of the Colorado Common Interest Ownership Act (CIOA). Under Section 209.5 of CIOA, as amended in 2009, the Association is required to adopt a policy statement regarding the manner in which the Association's capital replacement reserve obligations are determined and funded.

Under the Association's governing documents, the Association's 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 Section 8(a) of the Association's Declaration as well as under the terms of its Bylaws, it is mandatory for the Association to establish and maintain an adequate reserve account to pay for the periodic maintenance, repair or replacement of common elements. The Association is also required by CIOA to establish and maintain a capital replacement 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 Managers (the "manager") on an ongoing basis and monitors the capital replacement reserve needs of the Association. The board also implements appropriate actions and strategies to assure that adequate funding for capital repair and replacement expenses is available.

Capital Reserve Studies and Reports

The board addresses the Association's replacement reserve responsibilities on an annual basis by preparing the annual budget and reviewing current and future capital repair and replacement needs. This review is based upon the results of capital reserve studies that are conducted for the Association by an outside engineering or architectural firm from time to time. The board also considers reports and other information concerning these issues as gathered and presented by the manager. Based upon repair and replacement needs as perceived by the board and as revealed by these studies and reports, the board determines the extent and cost of the necessary repairs and replacements and then takes appropriate steps to implement the necessary work.

The selection of a firm to prepare the capital reserve study is typically made by the manager with the approval of the board. In making this selection, the manager shall be guided by the experience of the firm in this particular area of expertise as well as by competitive pricing for the services to be performed.

Copies of each capital reserve study as well as copies of all reports relating to capital repair and replacement issues are distributed promptly to each board member. The manager 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.

Each capital reserve study or report performed for the Association shall be consistent with and adhere to the best practices standards for such reports as enunciated by the Community Associations Institute from time to time. Each study or report shall also comply with the relevant requirements enunciated in CIOA.

Establishing and Maintaining the Reserve Account

Under Section 8(a) of the Association's Declaration, common expense charges for repairs, maintenance and utilities to a particular building within the NCA complex may be assessed only to the owners in that building. The NCA board has elected to utilize this alternative method for creating individual repair and replacement reserve accounts for each separate building. In addition, the NCA board has authorized the NCA accounting firm to establish a general repair and replacement reserve account for association structures and systems that are not specifically allocated to a separate building. The aggregate amounts in these various repair and replacement reserve accounts reflect the total repair and replacement reserves available at any given time. These amounts are reflected in the NCA financial statements, both as an aggregate amount and in the various amounts reflected in each component repair and replacement reserve account.

All of the repair and replacement reserve funds are maintained in one or more separate deposit or savings accounts at a commercial bank selected by the NCA accounting firm and approved by the board. At the present time, all sums in the reserve accounts are maintained in money market savings accounts or other interest bearing accounts that provide the highest available interest rate offered by the depository bank on such accounts. The goal of the board is to preserve these funds in a manner that will ensure

availability but also provide a money market rate of return. If appropriate, the board will also determine whether such funds should be deposited in money market funds offered in connection with major securities firm 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 manager 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 manager is authorized to make expenditures from the reserve accounts without the prior approval of the board for certain types of repair and maintenance expenses. Other payments must first be approved by the board, and the board may delegate this approval function to a committee of one or more members of the board. If the board authorizes an expenditure 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 capital replacement reserve funds or borrowing capacity available at all times to meet current repair and replacement needs of the Association. The board will determine the appropriate level of the capital replacement reserve accounts from time to time based upon the current capital reserve study and any related reports or information. Whenever the board determines that the level of a capital replacement reserve account 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 accounts. The board oversees this annual process and determines the total amount of each annual contribution to the overall replacement reserve accounts.

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 the

reserve accounts 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 accommodation in order to provide for immediate operational expenses as well as long term capital replacement and repair expenses. The Association is empowered under CIOA to pledge its assessment revenue stream as well as other property to collateralize any borrowings.