

## Section 10.5 Reserve Funds

As a part of the adoption of any proposed budget the Executive Board shall include an amount which, in its reasonable business judgment, will establish and maintain adequate and separate reserve funds for the Residential and Commercial Condominium Elements and the General Common Elements apportioned therein to assist in regulating the use, major maintenance or repair, replacement, improvement and modification of Common Elements including Residential and Commercial Common elements and those Limited Common Elements defined in the Declaration that it is obligated to maintain, based upon the project's age, remaining life and the quantity and replacement cost of major repairs and improvements.

B. Internal Revenue Code (IRC) Section 118, refers to amounts paid to a corporation as a conduit, agent, or trustee and with the prior understanding that such amounts are to be expended and applied for a specific capital purpose. In order to satisfy the criteria of IRC Code Section 118 and Revenue Ruling 74-563, 75-370 and 75-371, the Association shall formally segregate all portions of the annual assessments thus set aside and held in reserve, as well as such portion of any future annual assessments, and to hold and expend such sums solely and specifically in pursuance of the objects and purposes set forth in the Declarations, Articles, and By-laws of the Association.

C. The members of the Association wish to avoid any adverse federal income tax consequences upon the contribution of their annual assessments to the capital of the association, particularly the portion to be set aside and held in reserve for repair and replacement of improvements to the common areas. Accordingly, the Board shall formally segregate each year a portion of the assessments, to be set aside in a separate interest-bearing account and held in reserve, to hold and expend such funds solely and specifically as set forth herein.

D. Every five years, the Association shall obtain a reserve study and/or specialized engineering reports covering major components in order to estimate the required reserve funds for maintenance, repair, improvement and replacement of the Common Areas that are the Association's responsibility. The Association's reserve study, in order to be prepared on a consistent basis, shall contain assets meeting all of the following four-part National Reserve Study Standards criteria:

- a) Assets that are Residential, Commercial or General Common Elements or Limited Common Elements maintenance responsibility and
- b) Assets that limited Useful Life and
- c) Assets that have a predictable remaining useful life and
- d) Assets that are above the following minimum threshold cost: \$2,000.

E. The Association shall annually make all reserve disclosures necessary to its members as required by the Governing Documents and Colorado Law.

F. The treasurer of the Association shall separately maintain all monies and property presently held in reserve in account[s] to be held, invested, and expended by the Board of Directors for the repair and replacement of improvements to the common areas. These accounts shall be maintained separately from the operating accounts of the Association. Member assessments received will be deposited into the association's operating account[s], then the reserves portion of the dues income will be immediately (within 1-2 weeks) transferred to a separate account.

G. The Association's financial records (general ledger and financial statements) shall reflect the segregation of cash and investment accounts referred to above. The financial records shall also separately account for members equity from operating activity and members equity from replacement (reserve) activity in accordance with Colorado Law and the recommendations of the American Institute of CPA's Audit and Accounting Guide for Common Interest Realty Associations.

H. The majority of the reserve funds shall be deposited in accounts and amounts that are fully insured against loss by an agency of the U. S. Government. Interest on reserve funds shall be budgeted and transferred to the operating fund at least quarterly to the benefit of residential and commercial operating assessments.

I. Any and all persons who have access to the reserve funds shall have fidelity insurance covering the Association against dishonesty of such persons in the full amount of the funds in those accounts.