

Kernan Creek Ranch Homeowners Association

22 February 2006

Dear Kernan Creek Ranch Property Owners:

On 1 January 2006, a new law affecting the operation of Homeowners Associations (HOAs) in Colorado went into effect. This law applies to the KCR HOA. The law can be viewed at: http://www.state.co.us/gov_dir/leg_dir/olls/sl2005a/sl_308.htm.

The new law ("Act") focuses on the following major activities (a review of the Act can be found at http://www.state.co.us/gov_dir/leg_dir/olls/digest2005a/PROPERTY.htm):

1. Requires the HOA to furnish to all Owners in writing, at least once per year:
 - a. Current contact information of the HOA
 - b. Current financial information, including an operating budget, a list of all insurance policies, and a list of all applicable assessments
 - c. Minutes of all meetings held during the year
 - d. Copies of the bylaws, articles, rules, and responsible governance policies
 - e. Results of its most recent annual financial audit or review, which must be conducted at least once every two years.
2. Enacts open meeting provisions
3. Enacts open records requirements for books and records of the HOA
4. Requires the financial records of the HOA to be audited or reviewed at least once every two years; an audit is only required if the HOA has annual revenues or expenditures of over \$250,000, or if at least one-third of the Owners request an audit
5. Enacts conflict-of-interest rules for Board members
6. Requires the Board to follow generally accepted accounting principles (GAAP) in financial records
7. Requires the Board to adopt clear policies regarding collection of assessments, conflicts of interest, conduct of meetings, enforcement of covenants, and other matters
8. Requires some form of education/information to be offered to Owners annually regarding the general operation of the HOA and the rights and responsibilities of Owners and the Board under Colorado law
9. Encourages alternative dispute resolution
10. Requires the seller to provide to the buyer a copy of the HOA's covenants, rules, bylaws, and current financial information. Makes the seller liable for any damages caused by the failure to provide such information unless the failure resulted from the HOA's refusal to cooperate with the seller in furnishing documents.

In addition, the Act and its 1992 predecessor, the Colorado Common Interest Ownership Act (<http://www.dora.state.co.us/real-estate/manual/ch04sub/ch04colo.htm>), establish rules for voting by the HOA membership that are different than those identified in the KCR HOA Bylaws: (a) each parcel (unit) has one vote, irrespective of size; and (b) a two-thirds majority on any matter is the maximum that can be allowed under Colorado

law. These rules take precedent over the HOA Bylaws. The CCIOA also requires that the KCR HOA incorporate.

Your Board was aware of these matters and met on 18 January 2006 to discuss the impact of the new Act on the KCR HOA. I have attached the minutes of this meeting for your information. Bob Marion, who has done a superb job of running the KCR HOA for the last few years, felt that the Act presented too many onerous chores and decided to resign. The Board then reformed with me as the new president, Lin Daly and Tracy Brown continuing as Treasurer and Secretary, respectively, and Earl Scott as a Director-At-Large. We must have a fifth Board member and hope that one of you will volunteer.

In order for us to comply with the Act, the Board must do the following things:

1. Incorporate the HOA
2. Pass a Board Resolution recognizing the Act and adopting policies and procedures that conform to the Act
3. Educate the Owners as to the implications of the Act
4. Obtain general liability insurance for the roads
5. Create a line-item budget that contains the following items:
 - a. Insurance
 - b. Maintenance
 - c. Accounting
 - d. Legal
6. Provide information to Owners concerning the operation of the HOA, particularly to Owners who contemplate selling their property
7. Create a website (the most efficient way to communicate the required information)
8. Have a Board meeting to take care of the above and a General Meeting to review the Board actions; you are invited to attend both of these meetings.

The Board intends to meet on 19 March 2006 at my house to review the above activities, pass the appropriate resolution and policies and procedures, and discuss with any interested Owners the nature and impacts of the Act. I look forward to seeing you at this meeting.

Sincerely,

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Enc: 18 January 2006 Board minutes