

2015-2016

RESERVE STUDY ANNUAL REVIEW REVISION

Date prepared and revised: July 10, 2016

Annual Review (2016)

The 2016 review was conducted for the 2015 fiscal year, and assumptions are made for 2016 and the upcoming 2017 budget. It has been determined that fundamental changes to reflect expenditures in the current term study. Those changes do not reflect changes in amounts, but reflect schedule changes within the study.

The reserve funding requirements still remain within the suggested minimum 10% of total association revenue for budget preparation. It is felt that this tolerance will be absorbed naturally in the out years as the current assessment (HOA dues) will likely change. It is also noted that in 2016 capital expenses may be drawn from surplus cash, leaving the reserve balance unchanged. It is recommended that the AIA Treasure make that decision.

The analysis has calculated a modest inflation factor of 2% **each year**. As each new reserve term is entered, careful examination of the inflation factor should be studied and adjusted as needed. (Each term is 10-years)

This Review is for the year (2015-2016). Going forward, the assets will still need to be studied and reviewed in each new 10-year term period projected and presented. All assets were studied, reviewed and a determination was made on the expected timelines to project both useful life (UL) projections, and useful life remaining (RUL) within each term defined. If there are assets that are not mentioned, they have been determined to be a recurring maintenance functions, at which point should be placed into the operational budget. In addition, the Reserve Study has been expanded to include those assets identified in the out-years. The working analysis spreadsheets have been developed to list the individual assets, quantities, useful life, useful life remaining, replacement values, and extended cost projections of each asset.

While this term (2014-2024) has values assigned, values for the long term have additionally been calculated. That extended value is listed on each 10-year spreadsheet. The out years have simply received a 'zero' value, or if the asset exceeds the 40-year envelope. As each new 10 year term is entered, and if the (UL) of the asset approaches, it will be calculated within that term. Each individual asset is placed into the replacement schedule, and will be reviewed before each new 10-year term cycle begins.

Per §38-33.3-209.4(2) of CCIOA, the Association (AIA) must make the following information available to unit owners, on an annual basis:

- a. Any amounts held in reserves for the fiscal year immediately preceding the current annual disclosure.
- b. The Association's responsible governance policies adopted under section 38-33.3-209.5, which includes the Reserve Study Policy discussed above.
- c. This Review complies with §38-33.3-308 of the Colorado Common Interest Community Act ("CCIOA")

The review includes the oversight and reporting per §38-33.3-209.4(2) and §38-33.3-209.5 of CCIOA.

- a. The amounts held in reserve for the fiscal year immediately preceding the current annual disclosure.
- b. The status of the Association's responsibility to establish and implement the (9) governance policies adopted under CCIOA.

A. The 2015-2016 Reserve Review Included:

- (1) An oversight review of the assets identified in the original schedule of values for the term identified in this report. (2016)
- (2) A Financial review
- (3) Determine if any of the assets need to have adjustments, to both costs and schedule replacement dates.
 - a) Review determined to list and define all assets to extend into the out years
 - b) In 2016 the review concluded it include a road improvement plan, based upon the outcome and disposition by the Gunnison County Road Department with regards to the Alpine Road. The improvement plan must include the filing roads.
 - c) All spreadsheets were revised to reflect the projections, and are included with this report.
- (4) The Review confirms the funds are in a non-operating reserve.
- (5) Recommendations and actions.

B The Financial Review Included:

- (1) A review and report of the current funds held by the Association (AIA) are included.
- (2) A review and determination if the future funding plan for the defined term (2014-2024) can be met to achieve the requirements of the original Reserve Study.

C.2015- 2016 Reserve Review Results and Recommended Actions:

- (1) As of this review date July 9,2016 the current reserve (Members Contributions) bank held balances are:
 - Operation Reserve \$100,000 {Operational Deficit Reserve}
 - Members Contributions as of June 2016 were **\$461,199.54** {Non-Operational Reserve for Replacements}
 - As of this report the actual July 17, 2016 Members Contributions were **\$461,199.54 a net increase of \$98,787.32**
- (2) Reviewed and made adjustments to reflect the project expenditures within the term.
- (3) 2015 reserve funding from the annual Net Income has been met.
- (4) The 2016 funding appears to be on target.
- (5) The following are the results of the review and recommended actions for 2016:
 - a. *Review the estimated net income projections for the term. (Net income needed reviewed for under or over expectations). **Reserve funding was incorporated as a line expense in the 2016 budget.***
 - b. *2015 net income was moved into the "Members Contributions."*
 - c. *AIA should now develop and include a 'Road Improvement Plan' in the reserves.*
 - d. *In 2016 the assumption to expend for a joint effort with the water company to improve water flow into Arrowhead Lake, than into Hazel Lake.*
 - e. *Also to expense for winter Patrol vehicle.*

General Notes

- *If the Reserve budget amount cannot be met, Owners will need to be notified of the deficiency by the Treasurer.*
- ***It is recommended to fund each of the ten year terms. This should keep the funding management consistent.***

D. Status of the (9) governance policies adopted under CCIOA.

2015 review per §38-33.3-209.5 of CCIOA. This review concludes the (9) governing policies required have been achieved.

E. Summary:

- The 2015 Net Income has been placed into the reserves.
- In the 2016 budget, a separate “Line” for the reserve amount was established.
- The Analysis Spreadsheets has been redeveloped to show the appropriate changes in the 43 year projections.
- It is recommended that a minimum threshold of deposit to the reserve account should be 10% of the total budget. The percentage may have to be changed to meet each year projections.
- Each year the study reviews the annual amount projected, and determines if that need has been met.
- Owners and the Board must understand that achieving the required reserve requirements will be difficult, and budget management must be diligent.
- The future Boards must avoid entering into the next reserve term (2024-2034) underfunded or allow the ‘Members Contributions’ to become depleted.
- Please note the reserves held must be a non-operational reserve account as per CCIOA.
- The 2015-2016 Reserve Study Review determined that all assets were identified and values assigned for the extended out years. **(A BOD approved Road Improvement Plan should be implemented)**
- **The budget requirement over the long term demonstrates an annual budget of \$41,744 will be needed.**
- As each term is reached a new 10-year term will begin and the spreadsheet will reflect replacement recommendations.
- The scheduled terms are listed below:
 - (2014-2023)
 - (2024-2033)
 - (2034-2043)
 - (2044-2053)

Respectfully Submitted,
John L. Moseman