

SUMMIT HOA SERVICES INC.

Property Management and Community Association Consulting



Charter Ridge Association, Inc.

Breckenridge, CO 80424



Reserve Analysis – Basic Update Final Version

For Fiscal Year Ending 09/30/11

Client Contact –	Dan E. Butt
Property Manager –	Carol Cannon
Period analysis conducted –	November 01 to 15, 2010
Property inspected –	November 01 to 15, 2010
Report Finalized –	November 17, 2010
Analysis By –	Murray Bain

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November 17, 2010

Dan E. Butt
Charter Ridge Association, Inc.
P.O. Box 6022
San Antonio, TX 78209

Reserve Analysis – Basic Update

Your association has wisely chosen Summit HOA Services Inc. to provide a basic reserve analysis to guide the board in its long term financial planning. This analysis will prove to be a valuable tool in determining your future capital maintenance, repair and replacement projects, as well as justifying the budgeting of a significant portion of your regular assessments.

This reserve analysis combines the following parts:

- An introduction to reserve analysis in general
- Legislative summary relevant to reserve funding and accounting
- Sources of information contained and assumptions made in the process
- Observation's photo page
- Components excluded from the analysis
- A spreadsheet detailing the results and conclusions of the analysis

The Charter Ridge Townhomes association, located on Washington Lode, Breckenridge, comprises 5 luxury duplex units and 1 single family home (11 units total) , with common entrance roadway and landscaped areas. Construction of the homes commenced in 1993 and was completed in 1994. With some major repair work completed over the last couple of years, primarily to the retaining walls and the synthetic stucco facade, the project appears in great condition. The asphalt surfaces, and some exterior woodwork re-staining, appear to be the only reserve projects requiring imminent attention.

Although I am not an Engineer, nor a certified Reserve Specialist, I do hold a Professional Community Association Manager (PCAM) certification, the highest designation awarded by the national Community Association Institute. Additionally, I hold an active Colorado Real Estate Broker's license, and have been engaged in property and homeowner association management and consulting in Colorado for more than 18 years. I have conducted numerous similar basic reserve analyses over these years, particularly in the high alpine environment. I also possess significant knowledge and familiarity with HOA administrative and financial operations and concerns, as well as HOA governance and their legislative impacts, with an ability to apply this understanding to foster conformance in a more practical environment. Should your association desire further services, such as counsel on the application and incorporation of your reserve analysis into your operations, feel free to contact me accordingly.

Murray Bain, PCAM
President and Broker

Summit HOA Services Inc., P.O. Box 5045, Frisco CO 80443
murraybain5031@gmail.com
970-485-0829

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Reserve Analysis – an introduction

The primary duty of a common interest community association (homeowner association) is maintaining and preserving the values and assets of the association – especially the common property. A reserve (or replacement) fund is money set aside specifically for the future payment of significant repairs or replacements to the common property. The reserve fund balance, and ongoing homeowner contributions to the fund, is supported by a reserve plan, or analysis, which in turn supports the operating budget. Reserve expenses are only those related to capital improvements and not annual operating expenses.

There are only three options an association will face when paying for a major project:

1. Special Assessment – at the time the project is undertaken, a special assessment is imposed upon each current owner. This can be very expensive and may force an owner into financial hardship. The association's governing documents may limit the amount of such an assessment in any given year.
2. Financing – borrowing the funds to pay for a replacement can be a daunting process and may be limited by the governing documents. Nevertheless, current and future owners become the responsible parties when the time comes to pay these funds back.
3. Reserve Analysis – a more equitable practice is to perform a reserve analysis that establishes the life expectancy of each component in the common elements, considers the remaining useful life at the time the analysis is conducted, and associates a reasonable cost and timeline to conduct the project. The cost is usually represented in "today's dollars", although inflation and interest may be included. The reserve analysis will indicate the annual, and monthly, contributions required by each owner in the association to ensure sufficient funds have accumulated to pay for the project when it is needed. By reserving such funds each year, the eventual replacement cost is fairly distributed among the owners that actually use the elements, rather than "penalizing" only the current owners, as would be the case if a special assessment is imposed.

A reserve analysis usually combines a *physical analysis* of the property and relevant governing documents to gain information on the physical status of the common elements and determine the association's obligation for maintaining them, and a *financial analysis* that evaluates the association's current reserve fund balance, its annual income and expenses.

While a reserve analysis is not an exact portrayal of materials and costs ultimately needed, it is a proven guide to assist the association's board in its budgeting process. The analysis is based on estimates and assumptions gathered from various sources. Regular updates, at least every three years (annually is even better) will create a comfort level in preparing for the eventual improvements.

A well prepared, well communicated, reserve plan that is properly incorporated into the budget will:

- assist the board in fulfilling their fiduciary duty to the association
- lower the likelihood of large, unexpected, and possibly financially destructive special assessments
- increase the association's financial health and its presentation to lenders and insurance companies
- increase the value of each home in the complex, as well as its appeal to potential buyers
- conform to federal taxation requirements
- satisfy state legal requirements (see attached for most current guidelines)
- comply with secondary mortgage market guidelines (see attached for most current guidelines)
- convey an increased sense of comfort for the owners in knowing that their association is being well cared for

While every effort has been made to ensure the relevance and accuracy of the plan, any information presented reflects the judgment of Summit HOA Services Inc and should not be construed as a guarantee or assurance of predicting future events.

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Legislative Summary Related to Reserves for Homeowner Associations

Colorado State:

- CCIOA – The Colorado Common Interest Ownership Act (CCIOA) was created on July 01, 1992. Unless an exempt status is recognized, all homeowner associations created on or after this date are governed by the Act. In 2005, and virtually each year since, the state legislature has passed extensive amendments to the act.
- Association General Responsibility – “... the association is responsible for maintenance, repair, and replacement of the common elements ...” (CCIOA §38-33.3-307(1)).
- Responsible Governance – applies to all associations regardless if created before or after (CCIOA) July 01, 1992.
 - To promote responsible governance, associations shall “adopt policies, procedures, and rules and regulations concerning” the “investment of reserve funds” (CCIOA; §38-33.3-209.5(1)(b)(VI)). This includes the methods and standards used by the board in deciding how to invest and manage the association’s reserve funds.
 - In 2009, House Bill 1359 was signed into law by the Governor that requires a homeowner association to adopt a responsible governance policy that addresses how often a reserve study is to be prepared (the recommendation being at least every 3 years), whether it is based on a physical and a financial analysis, and to identify how it proposes to pay for scheduled repairs or replacement of reserve assets.

Federal:

- IRS – to not be considered taxable income, the IRS requires that the reserve fund be kept separate from the operating fund, agree to and support the budget, and be allocated to specific major improvements and replacements.
- Secondary Mortgage Market – in a recently updated Fannie Mae Selling Guide, specifically Announcement 07-18 that was issued on 11/15/07, Fannie Mae requires that a lender’s review of condominium projects must include a review of the association’s budget to ensure that it is “adequate” and that it “provides for the funding of replacement reserves for capital expenditures and deferred maintenance (at least 10 percent of the budget), and provides adequate funding for insurance deductible amounts.”

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Sources and Assumptions

Property Observation – the physical property was inspected primarily to determine the current condition and remaining useful life of each component included in the reserve analysis. Applicable measurements were taken, and quantities estimated, of components that were readily accessible and visible at the time of the observation. No structures or landscaping were damaged. The interior of individual homes was not accessed, nor were any other intrusive methods used during the investigation.

Documents – the association’s Declaration (CCR’s), or relevant sections thereof, was examined to determine the reserve components under the association’s responsibility. The current file, as maintained by Summit HOA Services Inc., containing previous documents and correspondence was scanned for relevant criteria to be addressed in the current analysis. Much of the information provided in this reserve analysis has been sourced from material gathered previously from the association’s primary contact and its managing agent.

Board – this analysis was prepared in consultation with the board, through its member representative with the implicit authority to act on behalf of the association. It is expected that this reserve analysis shall be used by the association as a guide in its budgeting process. Although the document should not be directly amended by the association, the board does have the right to suggest, or request, any amendments by Summit HOA Services Inc.

Time Value of Money – at the association’s (prior analysis) request, this reserve analysis has *not* been adjusted for interest or inflation, or for other external financial influences. This is in order to keep the document more readable and less complicated for its viewers. It could be construed that, over time, and with prudent investment of funds, inflationary pressures may very well be offset by earned interest.

Funding Strategy – the basic funding goals for all associations fall into one of four goals:

- **Baseline Funding** – whereby the reserve balance is maintained above zero.
- **Full Funding** – the reserve balance is attained and maintained at or near 100% of the analysis’ requirements.
- **Threshold Funding** – better than Baseline Funding, but more conservative than Full Funding, the reserve balance is kept above a predetermined dollar level or percentage of full funding. The percentage level is typically the ratio of the actual (or projected) reserve balance to the accrued fund balance, expressed as a percentage. For our purposes, we have simply expressed this level on our spreadsheet as a ratio of the projected Annual Contributions to the remaining (accrued) Annual Costs to be funded. Therefore, the funding level projected at the end of the fiscal year is **42%** funded, which is considered to be in fair financial position for the association. To achieve full funding, the spreadsheet indicates an increase in regular assessments by \$70 per month per unit for the duplex units, and \$115 per month for the single family home.

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Component Estimates – the following comments should be noted in reference to the respective component represented on the spreadsheet:

- Landscaping – no changes made, nor any anticipated improvements this fiscal year. The “Last Done” date has been advanced to permit a remaining useful life of one more year.
- Pavement – the asphalt pavement was re-measured (to ensure accuracy) and expressed in square footage, which is more in line with current contractor representations. Sealcoating has not occurred for sometime and is highly recommended to prolong the remaining useful life of the asphalt. Mountain Maintenance supplied (over the phone) sealcoating estimates per square foot. Although some patching and cracksealing have occurred in the past two years, there are numerous cracks apparent, both from weathering and expansion. The remaining useful life has been reduced accordingly. The quantity of cracks is only an estimate for budgeting purposes as they were not measured. However, A-Peak Asphalt Inc. and Mountain Maintenance were both contacted for crackseal price estimates over the phone; the Unit cost being adjusted accordingly. Both A-Peak Asphalt Inc. and B&B Excavating were consulted for current pricing estimates for milling and overlay work. Due to increased cost of materials and hauling, the Unit Cost was increased accordingly.
- Retaining Walls – no changes, other than reducing the remaining life by one year. All retaining walls appear in good condition, with adequate repairs taken into consideration in the last fiscal year.
- Electrical/signage – no changes.
- Façade repairs (stone) – for increased accuracy and greater comparison to contractor pricing, one duplex plus the single family home were measured. The quantities were extrapolated across the remaining 4 duplex units and expressed by square foot. As the life expectancy of the cultured stone would run the life of the buildings, and the material appears in very good condition, only major repairs are included with the estimated life of such being expanded to 10 years.
- Façade repairs (stucco) – again the single family home plus one duplex were measured, with the area square footage extrapolated over the remaining 4 duplex units. EIFS stucco would also run the life of the building, provided periodic needed repairs were conducted and no significant water intrusion behind the stucco has or will occur. Therefore, all associated costs have been adjusted, as well as the estimated life to permit major repairs every 3 years.
- Façade repairs (wood/trim) – no changes to spreadsheet other than reduced remaining useful life. It was observed that the overhead beams, entry doors and door trim all require re-staining. Furthermore, no changes were made to the replacement costs of these components.
- Decks and Railings – as these were last re-stained in 2005, a correction was made to the respective columns. Otherwise, no further changes were made. It was observed that the front entry decks are showing increased wear and should be considered for re-staining in the next 2 years.
- Sewer Lift Stations – no changes made. The station for the single family home reflects an overdue replacement. As it is not possible to determine if and when a lift station pump might require replacement, this overdue remaining useful life was left as is.

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- Roofing – a verification by Turner Morris indicated that there would be no changes to the bid issued to the association in 2009. Other than a reduction in remaining useful life, no other changes were made. Turner Morris did reiterate that the remaining useful life of the roof is very dependent upon the underlayment, particularly when using concrete tile roofing material. When a full roofing replacement is needed, it was emphasized that a slate roof would be preferable to concrete tile, although the additional cost of this is not reflected in this analysis.

Contractor Sources and Contacts –

<u>Company</u>	<u>Component</u>	<u>Contact</u>	<u>Office</u>	<u>Direct/Cell</u>
Stucco Works	EIFS/stucco	Kevin	9703286700	9703901316
Synthetic Sidings	EIFS/stucco	Vance Carroll	9703285474	9703905289
Vogelman West	Cultured Stone		9709494138	
A-Peak Asphalt	Asphalt overlay	Bruce Yanke	9704688644	
B&B Excavating	Asphalt overlay	Scott Barney	9703281734	
Mountain Maintenance	Asphalt repairs	Ira	9709265544	9709040386
Turner Morris	Roofing	Mark Hubbard	9702621700	9704712447

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Observations:



EIFS Façade – potential water damage



Railing – faded stain



Roofing tile lifting



Roofing tile missing



Asphalt expansion crack



Decking stain faded

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Exclusions List

Some common element components are excluded from the reserve analysis. These are based on customary exclusions in the industry, a review of the requirements listed in the governing documents, and upon conveyed desires (if any) of the board, either recently or from prior discussions.

The exclusions include:

Unit Owner Responsibilities

- Specific unit windows, entry doors and garage doors
- The unit interior
- Heating, ventilating and air condition (HVAC) equipment within the unit

Long-life Components

- Foundations and structural components (eg framework)
- EIFS (synthetic stucco) façade full replacement
- Cultured stone façade full replacement
- Decks/railings/stairs/patios full replacement
- Full replacement of all retaining walls

Utilities

- Primary electrical feeds and transformers
- Television cables, systems and structures
- Communications (telephone and internet) cables and structures
- Gas mains and meters
- Water mains and meters

Below Threshold Cost Components

- Reserve expenditures that are less than \$300 are not usually included
- Other repairs and maintenance historically and typically paid from operating funds

Contingencies

- No contingency funding has been included. It is seldom possible to anticipate every capital expense that will impact the association. It is therefore highly recommended that an association allow for such unexpected expenses and consider adding a contingency to the reserve analysis of up to 3% of the total funding required.

CHARTER RIDGE TOWNHOMES

Replacement Reserve Fund Plan 2011 (for Fiscal yr end 9/30/11)

Final Updated Plan 11/17/10

without added inflation/interest

Completion date of buildings - 1994

Item	Qty	Unit	Unit Cost	Replace Repair Cost	15 Yr Plan Cost	Done Last	Est. Use Life yrs	Rem. Use Life yrs	CFWD Fund Allocation	To Be Funded	TBF Annual Cost	2011 Annual Cont.	Comments
Commons:													
Landscaping improvements	1	EA	\$2,000	\$2,000	\$6,000	2007	5	1					Major upgrade/maint. Every 5 years
Pavement - sealcoat	15265	SF	\$0.16	\$2,442	\$9,159	2004	4	-3					Sealcoat needed
- crackseal and patching	500	LF	\$1.00	\$500	\$3,750	2009	2	0					Cracksealing needed
- asphalt overlay (some milling)	15265	SF	\$2.00	\$30,530	\$22,898	1994	20	3					
- concrete walkways	702	SF	\$1.35	\$948	\$711	1994	20	3					
Retaining Walls - timber	1200	SF	\$1.00	\$1,200	1800	2005	10	4					
- rock/stucco	1	EA	\$5,000	\$5,000	\$2,500	1994	30	13					
- boulder	1	EA	\$5,000	\$5,000	\$2,500	1994	30	13					
Electrical - lighting/signage	1	EA	\$5,000	\$5,000	\$3,750	1994	20	3					Entrance sign/lighting
COMMONS TOTALS:					\$53,067								

Duplexes:													
Facade repairs - cultured ledge stone	12000	SF	\$0.40	\$4,800	\$7,200	2004	10	3	\$535	\$6,665	\$444	\$185	
Facade repairs - EIFS stucco	16400	SF	\$0.05	\$820	\$4,100	2009	3	1	\$305	\$3,795	\$253	\$106	
Facade repairs - vertical wood surfaces	23760	SFL	\$0.25	\$5,940	\$22,275	2005	4	-2	\$1,654	\$20,621	\$1,375	\$574	Includes wood trim, facia, doors, windows
Facade replacement - vertical wood surfaces	23760	SFL	\$1.00	\$23,760	\$11,880	1994	30	13	\$882	\$10,998	\$733	\$306	Includes wood trim, facia, doors, windows
Decks/Railings/Stairs/Patios	3500	SFW	\$2.00	\$7,000	\$10,500	2005	10	4	\$780	\$9,720	\$648	\$270	Repaint + repairs
Sewer Lift Stations	5	EA	\$2,200	\$11,000	\$11,000	2008	15	12	\$817	\$10,183	\$679	\$283	\$62 and #42 replaced 2008; HOA has 1 spare
Roofing Repairs - concrete tile	183	Sq	\$10.00	\$1,830	\$5,490	2007	5	1	\$408	\$5,082	\$339	\$141	
Roofing Replacement - concrete tile	183	Sq	\$1,253	\$229,299	\$114,650	1994	30	13	\$8,515	\$106,134	\$7,076	\$2,952	Turner Morris bid 5/29/09
Duplex share of commons (86.5%)					\$45,903				\$3,409	\$42,494	\$2,833	\$1,182	
BUILDING TOTALS:					\$232,998				\$17,305		\$14,380	\$6,000	** Requires Dues Increase (per unit per mnth \$70 Percentage level of funding: 42%)

Single Family:													
Facade repairs - cultured ledge stone	2506	SF	\$0.40	\$1,002	\$1,504	2004	10	3	\$108	\$1,395	\$93	\$38	
Facade repairs - EIFS stucco	3553	SF	\$0.05	\$178	\$888	2009	3	1	\$64	\$824	\$55	\$23	Below threshold, but included for comparison
Facade repairs - vertical wood surfaces	3708	SFL	\$0.25	\$927	\$3,476	2005	4	-2	\$250	\$3,226	\$215	\$88	Includes wood trim, facia, doors, windows
Facade replacement - vertical wood surfaces	3708	SFL	\$1.00	\$3,708	\$1,854	1994	30	13	\$133	\$1,721	\$115	\$47	Includes wood trim, facia, doors, windows
Decks/Railings/Stairs/Patios	500	SFW	\$2.00	\$1,000	\$1,500	2005	10	4	\$108	\$1,392	\$93	\$38	Repaint + repairs
Sewer Lift Stations	1	EA	\$2,200	\$2,200	\$2,200	1994	15	-2	\$158	\$2,042	\$136	\$56	
Roofing Repairs - concrete tile	48	Sq	\$10.00	\$480	\$1,440	2007	5	1	\$104	\$1,336	\$89	\$37	
Roofing Replacement - concrete tile	48	Sq	\$743	\$35,664	\$17,832	1994	30	13	\$1,284	\$16,548	\$1,103	\$452	Turner Morris bid 5/29/09
SF share of commons (13.5%)					\$7,164				\$516	\$6,648	\$443	\$182	
BUILDING TOTALS:					\$37,858				\$2,725		\$2,342	\$960	** Requires Dues Increase (per unit per mnth \$115 Percentage level of funding: 41%)

HOA TOTALS: \$20,030 \$16,722 \$6,960 Total percentage level of funding: 42%

10/01/10 Fund Balance Duplexes: \$17,305
 10/01/10 Fund Balance SF: \$2,725
 Total Fund Balance 10/01/10: \$20,030

** Dues increase required assumes 100% funding level desired. Current funding level also indicated.

2011 Budgetted Res Inc Duplexes: \$6,000
 2011 Budgetted Reserve Income SF: \$960
 Total Bdg Income for 2011: \$6,960

Key: EA Each
 SF Square Foot
 SFL Square Foot Living (Units)
 SFW Square Foot Walking (surface)
 Sq Square (10'x10')
 Cfwd Carried Forward balances
 TBF To Be Funded

All representations are estimates and assumptions of the expected life of major components only and the expected costs to repair or replace at today's prices.
 The wise investment of reserve funds should help offset inflationary increases. Therefore no such adjustments have been made.
 No warranties are made. The Executive Board should verify all data to their satisfaction and review this plan annually.