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Twin Ridge HOA

**Twin Ridge Drive
Aspen, CO 81611**

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Level 1 Reserve Analysis

Report Period – 01/01/11 – 12/31/11

**Client Reference Number - 8231
Property Type – Condominiums
Number of Units – 12
Fiscal Year End – December 31**

**Final
Version**

**Date of Property Observation - October 13, 2010
Project Manager - G. Michael Kelsen, RS, PRA
Main Contact Person - Ms. Anne MacLean, Board of Directors**

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Introduction to the Reserve Analysis –

The elected officials of this Association made a wise decision to invest in a Reserve Analysis to get a better understanding of the status of the Reserve funds. This Analysis will be a valuable tool to assist the Board of Directors in making the decision to which the dues are derived. Typically, the Reserve contribution makes up 15% - 40% of the Association's total budget. Therefore, Reserves is considered to be a significant part of the overall monthly Association payment.

Every Association conducts its business within a budget. There are typically two main parts to this budget, Operating and Reserves. The Operating budget includes all expenses that are fixed on an annual basis. These would include management fees, maintenance fees, utilities, etc. The Reserves is primarily made up of Capital Replacement items such as asphalt, roofing, fencing, mechanical equipment, etc., that do not normally occur on an annual basis.

The Reserve Analysis is also broken down into two different parts, the Physical Analysis and the Financial Analysis. The Physical Analysis is information regarding the physical status and replacement cost of major common area components that the Association is responsible to maintain. It is important to understand that while the Component Inventory will remain relatively "stable" from year to year, the Condition Assessment and Life/Valuation Estimates will most likely vary from year to year. You can find this information in the **Asset Inventory Section** (Section 2) of this Reserve Analysis. The **Financial Analysis Section** is the evaluation of the Association's Reserve balance, income, and expenses. This is made up of a finding of the clients current Reserve Fund Status (measured as Percent Funded) and a recommendation for an appropriate Reserve Allocation rate (also known as the Funding Plan). You can find this information in Section 3 (pages 1 – 13) of this Reserve Analysis.

The purpose of this Reserve Analysis is to provide an educated estimate as to what the Reserve Allocation needs to be. The detailed schedules will serve as an advanced warning that major projects will need to be addressed in the future. This will allow the Board of Directors to have ample timing to obtain competitive estimates and bids that will result in cost savings to the individual homeowners. This will also ensure the physical well being of the property and ultimately enhance each owner's investment, while limiting the possibility of unexpected major projects that may lead to Special Assessments.

It is important for the client, homeowners, and potential future homeowners to understand that the information contained in this analysis is based on estimates and assumptions gathered from various sources. Estimated life expectancies and cycles are based upon conditions that were readily visible and accessible at time of the observation. No destructive or intrusive methods (such as entering the walls to inspect the condition of electrical wiring, plumbing lines, and telephone wires) were performed. In addition, environmental hazards (such as lead paint, asbestos, radon, etc.), construction defects, and acts of nature have not been investigated in the preparation of this report. If problem areas were revealed, a reasonable effort has been made to include these items within the report. While every effort has been made to ensure accurate results, this report reflects the judgment of Aspen Reserve Specialties and should not be construed as a guarantee or assurance of predicting future events.

General Information and Answers to Frequently Asked Questions –

Why is it important to perform a Reserve Study?

As previously mentioned, the Reserve allocation makes up a significant portion of the total monthly dues. This report provides the essential information that is needed to guide the Board of Directors in establishing the budget in order to run the daily operations of your Association. It is suggested that a third party professionally prepare a Reserve Study since there is no vested interest in the property. Also, a professional knows what to look for and how to properly develop an accurate and reliable component list.

Now that we have “it”, what do we do with “it”?

Hopefully, you will not look at this report and think it is too cumbersome to understand. Our intention is to make this Reserve Analysis very easy to read and understand. Please take the time to review it carefully and make sure the “main ingredients” (asset information) are complete and accurate. If there are any inaccuracies, please inform us immediately so we may revise the report.

Once you feel the report is an accurate tool to work from, use it to help establish your budget for the upcoming fiscal year. The Reserve allocation makes up a significant portion of the total monthly dues and this report should help you determine the correct amount of money to go into the Reserve fund. Additionally, the Reserve Study should act as a guide to obtain proposals in advance of pending normal maintenance and replacement projects. This will give you an opportunity to shop around for the best price available.

The Reserve Study should be readily available for Real Estate agents, brokerage firms, and lending institutions for potential future homeowners. As the importance of Reserves becomes more of a household term, people are requesting homeowners Associations to reveal the strength of the Reserve fund prior to purchasing a condominium or townhome.

How often do we update or review “it”?

Unfortunately, there is a misconception that these reports are good for an extended period of time since the report has projections for the next 30 years. Just like any major line item in the budget, the Reserve Analysis should be reviewed *each year* before the budget is established. Invariably, some assumptions have to be made during the compilation of this analysis. Anticipated events may not materialize and unpredictable circumstances could occur. Aging rates and repair/replacement costs will vary from causes that are unforeseen. Earned interest rates may vary from year to year. These variations could alter the content of the Reserve Analysis. Therefore, this analysis should be reviewed annually, and a property observation should be conducted at least once every three years.

Is it the law to have a Reserve Study conducted?

The Government requires reserve analyses in approximately 20 states. The State of Colorado currently requires all Associations to adopt a Reserve policy, but does not currently enforce a Reserve Study is completed. Despite enacting this current law, the chances are also very good the documents of the Association require the Association to have a Reserve fund established. This may not mean a Reserve Analysis is required, but how are you going to know there are enough funds in the account if you don't have the proper information? Hypothetically, some Associations look at the Reserve fund and think \$50,000 is a lot of money and they are in good shape. What they don't know is the roof will need to be replaced within 5 years, and the cost of the roof is going to exceed \$75,000. So while \$50,000 sounds like a lot of money, in reality it won't even cover the cost of a roof, let alone all the other amenities the Association is responsible to maintain.

What makes an asset a “Reserve” item versus an “Operating” item?

A “Reserve” asset is an item that is the responsibility of the Association to maintain, has a limited Useful Life, predictable Remaining Useful Life expectancies, typically occurs on a cyclical basis that exceeds 1 year, and costs above a minimum threshold cost. An “operating” expense is typically a fixed expense that occurs on an annual basis. For instance, minor repairs to a roof for damage caused by high winds or other weather elements would be considered an “operating” expense. However, if the entire roof needs to be replaced because it has reached the end of its life expectancy, then the replacement would be considered a Reserve expense.

The GREY area of “maintenance” items that are often seen in a Reserve Study –

One of the most popular questions revolves around major “maintenance” items, such as painting the buildings or seal coating the asphalt. You may hear from your accountant that since painting or seal coating is not replacing a “capital” item, then it cannot be considered a Reserve issue. However, it is the opinion of several major Reserve Study providers that these items are considered to be major expenses that occur on a cyclical basis. Therefore, it makes it very difficult to ignore a major expense that meets the criteria to be considered a Reserve component. Once explained in this context, many accountants tend to agree and will include any expenses, such as these examples, as a Reserve component.

The Property Observation –

The Property Observation was conducted following a review of the documents that were established by the developer identifying all common area assets. In some cases, the Board of Directors at some point may have revised the documents. In either case, the most current set of documents was reviewed prior to inspecting the property. In addition, common area assets may have been reported to Aspen Reserve Specialties by the client, or by other parties.

Estimated life expectancies and life cycles are based upon conditions that were readily accessible and visible at the time of the observation. We did not destroy any landscape work, building walls, or perform any methods of intrusive investigation during the observation. In these cases, information may have been obtained by contacting the contractor or vendor that has worked on the property.

The Reserve Fund Analysis –

We projected the starting balance from taking the most recent balance statement, adding expected Reserve contributions for the rest of the year, and subtracting any pending projects for the rest of the year. We compared this number to the ideal Reserve Balance and arrived at the Percent funded level. Measures of strength are as follows:

0% - 30% Funded – Is considered to be a “weak” financial position. Associations that fall into this category are subject to Special Assessments and deferred maintenance, which could lead to lower property values. If the Association is in this position, actions should be taken to improve the financial strength of the Reserve Fund.

31% - 69% Funded – The majority of Associations are considered to be in this “fair” financial position. While this doesn’t represent financial strength and stability, the likelihood of Special Assessments and deferred maintenance is diminished. Effort should be taken to continue strengthening the financial position of the Reserve fund.

70% - 99% Funded – This indicates financial strength of a Reserve fund and every attempt to maintain this level should be a goal of the Association.

100% Funded – This is the ideal amount of Reserve funding. This means that the Association has the exact amount of funds in the Reserve account that should be at any given time.

Summary of Twin Ridge HOA -

Assoc. ID #8231

Projected Starting Balance as of April 1, 2011 -	\$22,782
Ideal Reserve Balance as of April 1, 2011 -	\$63,728
Percent Funded as of April 1, 2011 -	36%
Recommended Reserve Allocation (per month) -	\$1,270
Minimum Reserve Allocation (per month) -	\$1,220
Recommended Special Assessments -	\$0.00

Information to complete this Reserve Analysis was gathered during a property observation of the common area elements in October, 2010. In addition, we obtained some information by contacting local vendors and contractors, as well as communicating with the property representative (BOD Member). To the best of our knowledge, the conclusions and suggestions of this report are considered reliable and accurate insofar as the information obtained from these sources.

This property contains 12 townhome style units within 3 similar buildings along with 13 Single Family Homes that were constructed approximately 21 years ago in 1989. Common area amenities the Association is responsible to maintain include the townhome building exterior surfaces, the private driveways/parking lot, garbage enclosures and mailboxes. Major Reserve projects completed in the past few years include painting, roof replacement and asphalt repairs. Please refer to page 11 of the Financial Analysis section for a list of when other components are scheduled to be addressed.

In comparing the current Reserve balance of \$22,782 versus the ideal Reserve Balance of \$63,728, we find the Association Reserve fund to be in a less than average financial position at this point in time (approximately 36% funded of ideal). Associations in this position can be susceptible to Special Assessments or deferred maintenance, which both can lead to lower property values. As a result, we find it necessary to recommend a establishing a monthly Reserve allocation of \$1,270 per month effective immediately, followed by nominal annual increases of 4.00% thereafter to help offset the effects of inflation. By following the recommendation, the plan will increase the Reserve account to a positive manner, and eventually achieve the goal of reaching a fully funded position within the thirty-year period.

In the percent Funded graph, you will see we have also provided a "minimum Reserve contribution" of \$1,220 per month. If the Reserve contribution falls below this rate, then the Reserve fund will fall into a situation where additional Special Assessments, deferred maintenance, and lower property values are possible at some point in the future. The minimum Reserve allocation follows the "threshold" theory of Reserve funding where the "percent funded" status is not allowed to dip below 30% funded at any point during the thirty-year period.

This was provided for one purpose only, to show the Association how small the difference is between the two scenarios and how it would not make financial sense to contribute less money (approximately \$4.16 on average per unit per month in this case) to the Reserve fund to only stay above a certain threshold. As you can see, the difference between the two scenarios is considered to be minimal when compared on a percentage basis, and considering the risk involved, we strongly suggest the recommended Reserve Allocation is followed.