

# 11 RESERVE STUDY POLICY

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## 11.1 POLICY

It is the Policy of the Association to conduct a Reserve Study every three years. A Reserve Study may be performed internally by the Board, a committee of Owners appointed by the Board, or an outside contractor engaged by the Board. The Board may also designate and direct the use of outside consultants and/or contractors to provide professional consultations, calculations, engineering, estimates and counsel that may be deemed appropriate to complete a Reserve Study.

A Reserve Study is a structured review of the assets of the Association and an assessment of replacement reserves that may be needed to meet financial obligations to replace or refurbish assets, beyond maintenance inclusions in the annual budgets.

A structured program of the Reserve Study guides a process of responsible management of the Association assets, as well as the following:

1. Meets legal requirements for common interest associations to manage assets;
2. Provides for replacement funding of major common items;
3. Enhances resale values, by documenting planned replacements and planning for expenditures;
4. Minimizes the need for special assessments;
5. Meets accounting standards that require proper reporting of replacement funding for major assets.

### A Reserve Study includes:

1. Component Inventory, listing items included and excluded from the Reserve Study;
2. Condition Assessment, with remaining expected life, value estimates and replacement cost estimates;
3. Analysis of existing funding status;
4. Review of previous years' Reserve Studies and funding plans;
5. Funding recommendation for replacement of major common items;
6. Report to Board with conclusions and recommendations.

A component inventory will include assets of the Association, such as improvements to common areas, real estate parcels, irrigation improvements, walking paths, playground equipment, entrance signage, etc.

### Reserve Funds shall be established and funded for the following categories:

1. **Irrigation Reserve Fund:** Replacement of parts to the irrigation system not covered by routine maintenance as budgeted for on an annual basis. Example: Replacement of pumps or main pipelines.
2. **Common Area Reserve Fund:** Replacement of larger capital items within the Community Center and all other Common Areas not covered by routine maintenance as budgeted for on an annual basis. Example: Replacement of air conditioning units or repaving parking lot at Community Center. Maintenance and repair of sidewalks owned by the Association in conjunction with the City of Fruita.
3. **General Maintenance Reserve Fund:** Extraordinary maintenance of the exterior surfaces of dwelling units as per Section 7.6 Duty to Manage and Care for Exterior Surfaces of the Declaration. Example: Painting of exterior surfaces of dwelling units and garage doors.
4. **Operations Reserve Fund:** Sufficient capital to provide for six months of operations of the Association in order to maintain a healthy reserve for the Association. This fund will help provide for the transition from Board Management to outside management without an immediate increase in the annual dues. Example: Maintain operations of the Association for a given period of time during difficult times; legal bills to cover lawsuit or IRS audit.

### Reserve Funds shall meet the following criteria:

1. All Reserve Funds shall be funded as per the annual budget as proposed by the Executive Board (Board) for the Association and ratified by the Owners in the Association.

2. All monies for each Reserve Fund shall be allocated to said fund on an annual basis and accounted for as Restricted Earnings on the Balance Sheet of the Association.
3. Funds should be invested in interest bearing accounts in order to maintain values closely associated with the Consumer Price Index (CPI). Balances in said accounts shall not exceed the amounts as guaranteed by the FDIC.
4. Each fund will be considered fully funded when the amount in said fund meets or exceeds a cap limit set by the Board. Further funding may resume when the Board deems it necessary to expand the cap limit as provided by a Reserve Fund Study.
5. The Board reserves the right to establish additional funds as the needs of the Association may require.
6. Items to be excluded from consideration are public roadways, utilities, and Owner lot improvements.

A completed Reserve Study will be reviewed by the Board to consider report recommendations, funding proposals and appropriate communications to, and approvals of, the Owners. Each Annual Meeting of the Owners of the Association will include an agenda item to review reserve funding status.