

APPENDIX I – BOARD POLICIES

SUBSECTION 7. GVR RESERVE STUDY POLICY

A. Overview

A reserve study is a planning and budgeting tool that enables GVR to plan for the maintenance, repair and replacement of its equipment, facilities, and infrastructure to meet member expectations and high standards. The study accomplishes this by analyzing, quantifying and projecting costs of specific items called Components, in the aggregate called a Component Inventory, over a 30 year period and formulating a Reserve Contribution amount to pay these costs.

The reserve study verifies the current status of the Reserve fund and calculates a stable and equitable Funding Plan to offset the anticipated future major common area expenditures. The Reserve Study consists of two parts: (1) the Physical Analysis and (2) the Financial Analysis

B. Reserve Study

To be fiscally responsible, GVR has to answer these basic but critical questions:

1. What will the cost be to maintain, repair and replace its equipment, facilities, and infrastructure to meet member expectations and high standards?
2. When and to what extent will these costs be incurred?
3. Will GVR have sufficient money on-hand to meet these costs?

There are three (3) types of Reserve Studies:

1. Full Reserve Study – Baseline, vendor evaluates all facilities, equipment and infrastructure
2. Reserve Study with no onsite visit (NOV) – GVR updates Component Inventory with changes
3. Reserve Study with an onsite visit (WOV) – Vendor reevaluates Component Inventory & updates

The Component Inventory of a Reserve Study is the fundamental data driving Reserve Study results. To maintain Component Inventory integrity, it is imperative that GVR record all maintenance, repairs and replacements to Components as they occur or new Components are added and notify the

Reserve Study provider. This is especially true when Reserve Study with no onsite visit is done.

Each Component must meet these four (4) criteria:

1. GVR must have a duty to maintain, repair and replace it
2. Limited useful life
3. Predictable remaining useful life
4. Exceeds a minimum dollar threshold.

By planning, budgeting and funding GVR maintenance, repair and replacement expenses, GVR achieves these three (3) goals:

1. Sufficient cash to meet its Reserve Study Component Inventory expenses
2. Achieves a stable Reserve Contribution amount
3. Evenly distributes the cost to current and future members

Financial Analysis: This portion of a Reserve Study determines the current status of the Reserves (measured as cash or Percent Funded) and recommends Reserve Contribution rate (Reserve Funding Plan) and the projected Reserve Income and expense over time is presented. The Financial Analysis is one of the two parts of a Reserve Study.

Fully Funded Balance (FFB): An indicator against which Actual (or Projected) Reserve balance can be compared. The Reserve balance that is in direct proportion to the fraction of life "used up" of the current Repair or Replacement cost. This number is calculated for each Component then summed together for GVR total. Two formulae can be utilized, depending on the provider's sensitivity to interest and inflation effects. Note: Both yield identical results when interest and inflation are equivalent.

$$\text{FFB} = \text{Current Cost} \times \text{Effective Age} / \text{Useful Life}$$

Or

$$\text{FFB} = (\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) +$$

$$[(\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) / (1 + \textit{Interest Rate}) ^ \text{Remaining Useful Life}] -$$

$$[(\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) / (1 + \textit{Inflation Rate}) ^ \text{Remaining Useful Life}]$$

Percent Funded: The ratio, at particular point in time (typically the beginning of the Fiscal Year), of the *actual* (or projected) Reserve Balance divided by the Fully Funded Balance is expressed as a percentage.

C. Annual Reserve Study

During the third quarter of the current budget year GVR staff and the Fiscal Affairs Committee shall recommend and the Board shall approve a reserve study provider and the type of reserve study to be performed during the first quarter of the next budget year.

During the first quarter of each budget year, GVR shall ensure a Reserve Study is performed by a qualified, reputable Reserve Study provider with the final Reserve Study due 90 days prior to the final budget date. The Reserve Contribution amount will be incorporated into GVR's annual budget.

GVR shall annually make the Reserve Contribution to the Maintenance, Repair and Replacement Reserve Fund called for in the Annual Reserve Study.