

Financial Update

Tom Anderson

Treasurer

August 29, 2024



AGENDA

- **Current Situation**
- **Assessments and Inflation**
- **Reserve Study Results**
- **Reserve Position**
- **Proposed Changes**
- **Next Steps**



CURRENT SITUATION

Annual Assessment has been capped at \$300 + Insurance for 30 Years



Living on a Fixed Income

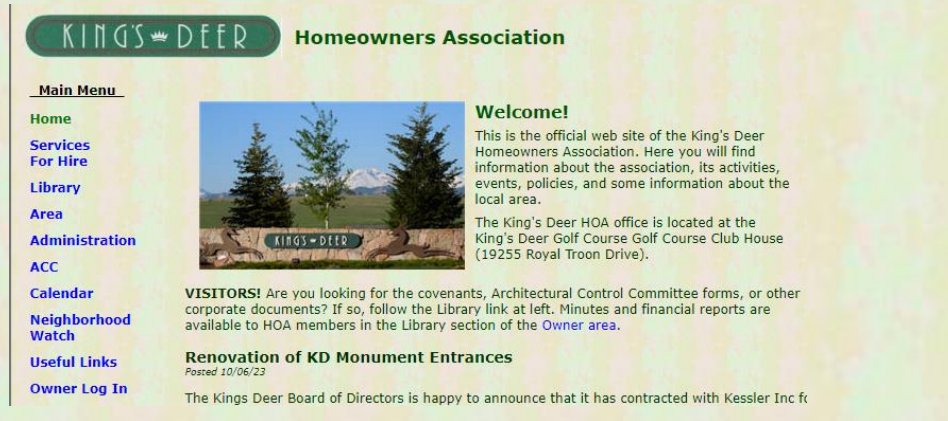


While Costs Continue to Increase

ASSESSMENTS FUND:

ANNUAL OPERATING BUDGET

ASSET RESERVES



ASSET TYPE	VALUE
Playground	\$ 178,050
Trails	165,000
Monuments	131,000
Other	112,830
Pond	35,000
Grand Total	\$ 621,880



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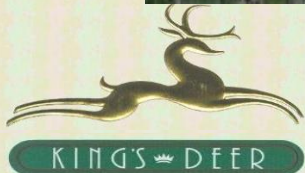


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Asset Values for major refurbishments/renovations

Administrative Costs, Annual Maintenance, Utilities



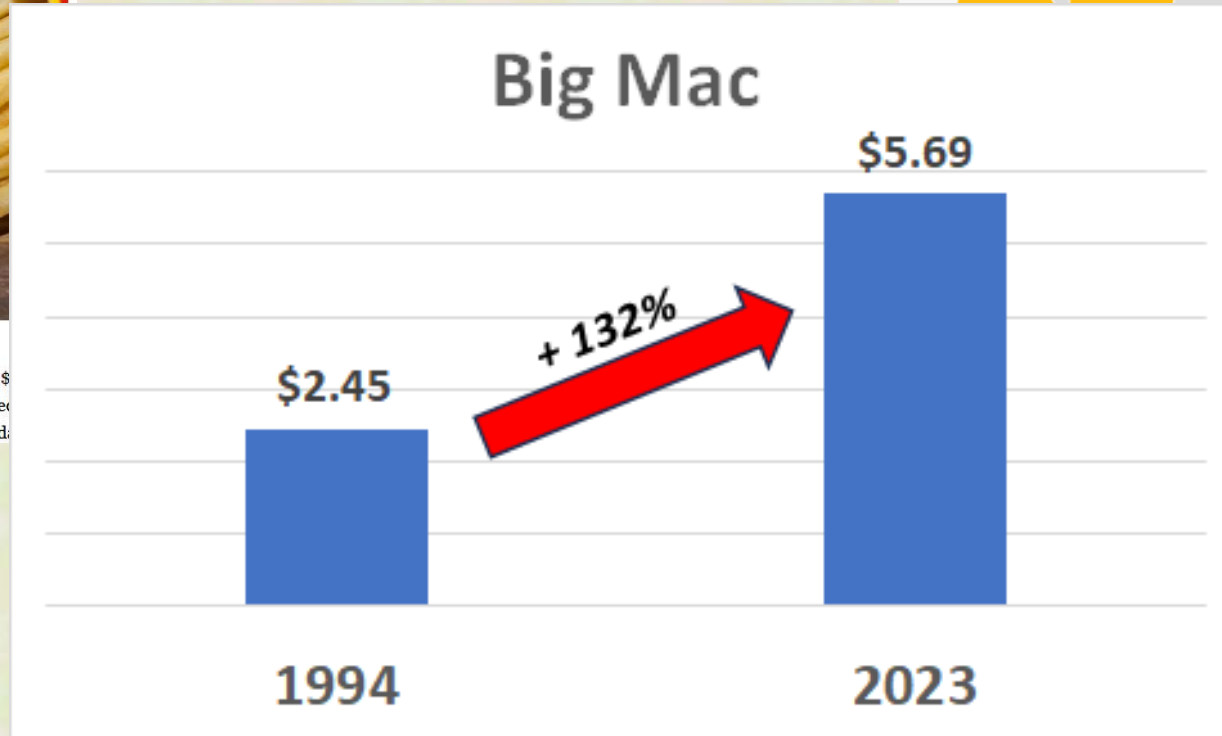
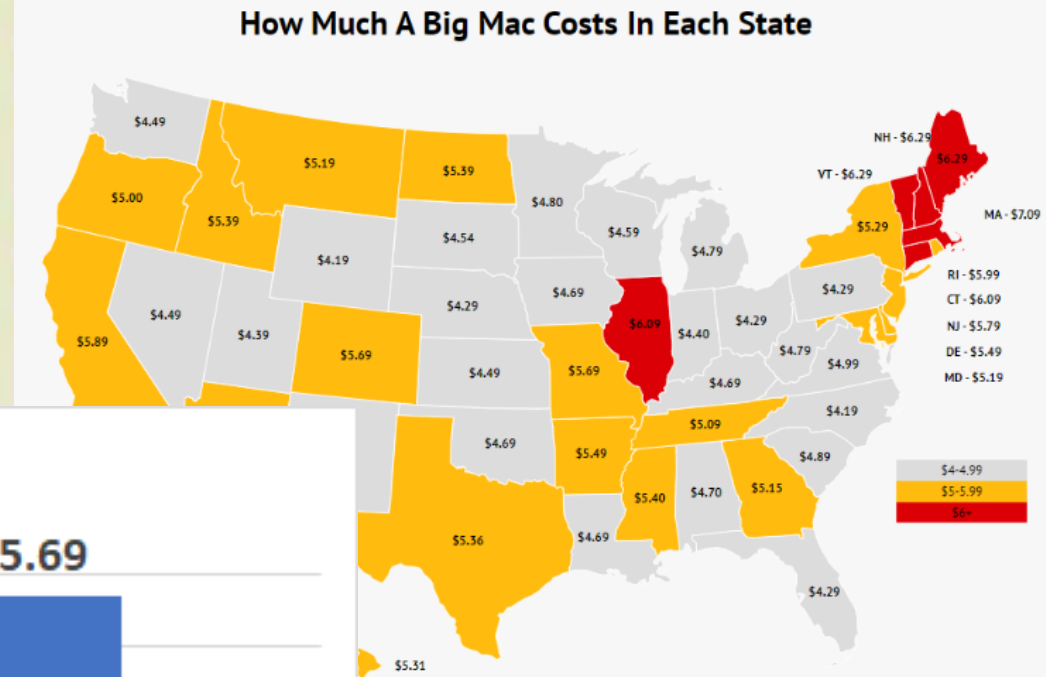
INFLATION

- 1990s: \$2.45, or \$4.59 for a Big Mac Extra Value Meal



Shutterstock

A photo of a McDonald's menu from the '90s shows a Big Mac listed for \$2.45 with a Big Mac Extra Value Meal listed at \$4.59. And Seeking Alpha notes the average price of a U.S. Big Mac was \$2.50 in 1998. Ah, the good old days.



- Denver Area CPI increased 121% from 1994 to 2022 – a **2.8% Annual Increase**
- **July 2024 Annual Denver Area CPI was only 1.9%**
- The \$300 Assessment adjusted for Denver area CPI inflation = **\$662** (as of December 2022)



2024 RESERVE STUDY



- The Board engaged **Association Reserves (AR)** to complete the 2024 Reserve Study, the same organization that completed the 2022 Reserve Study
- AR completed an on- site inspection and independent assessment of community assets
- AR determined that our annual reserve contribution should be \$45,000


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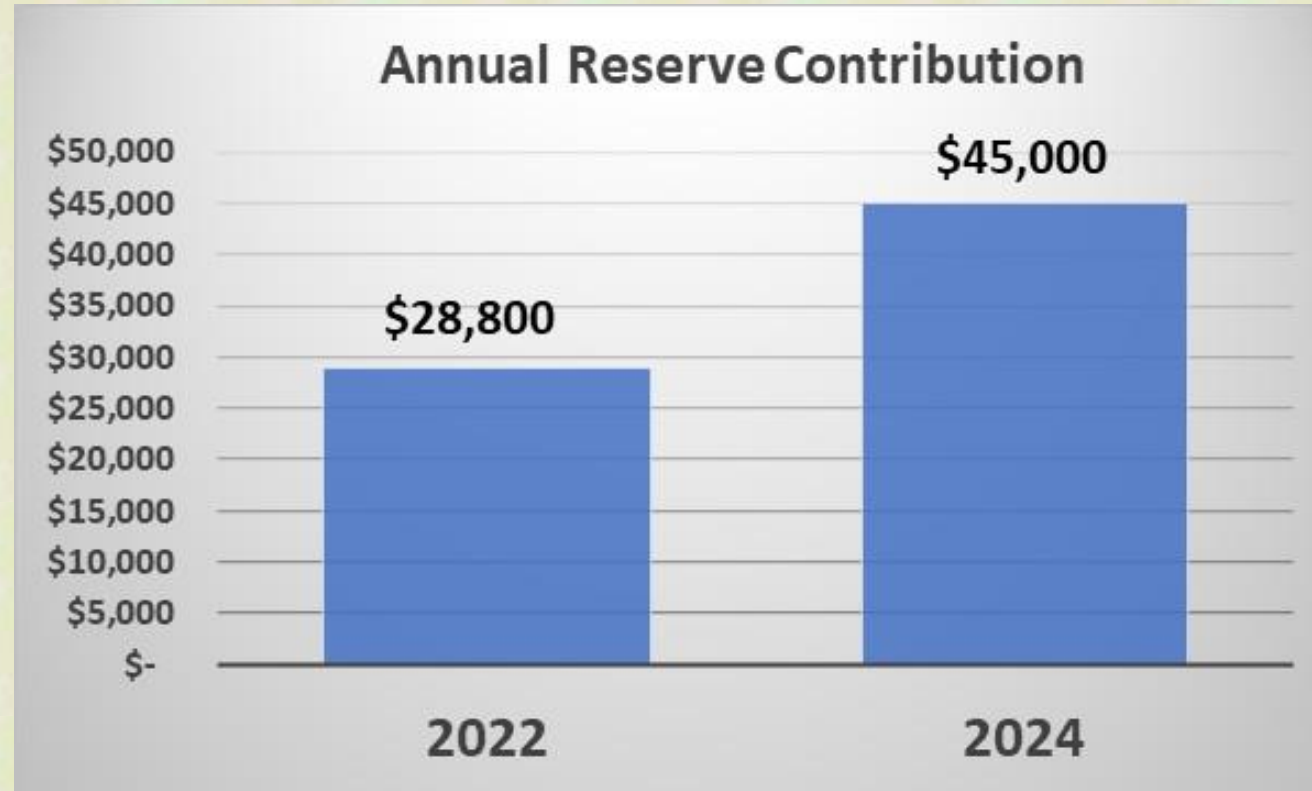
Report #: 13409-2
Beginning: January 1, 2025
Expires: December 31, 2025

RESERVE STUDY
Update "With-Site-Visit"

00260
RESERVE SPECIALISTS

May 31, 2024

RESERVE CONTRIBUTIONS INCREASE 56%



- **Inflation** driving the significant cost increase to refurbish/replace assets such as our trails, monuments, and playground area
- **Prior Shortfalls.** We also were short \$\$\$ and did not make sufficient contributions in 2023 and 2024 – making up the shortfall is also included in the above

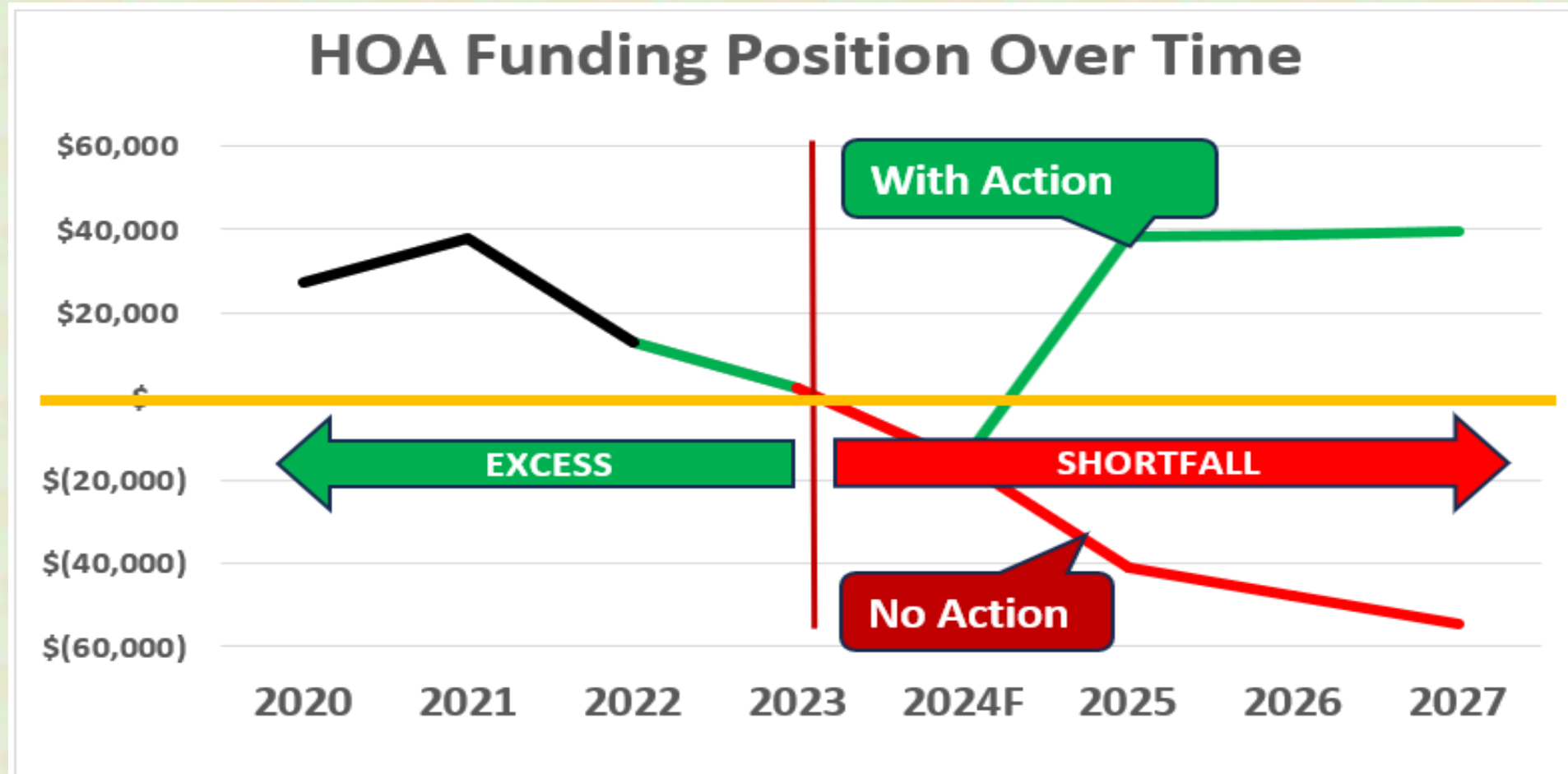
Proposed Assessment Changes

- Board of Directors propose an amendment to the Covenants to:
 - ✓ Increase the annual assessment from \$300 to \$450 per year
 - ✓ Add annual adjustment factor capped by the annual change in the Denver Area CPI
- The proposal addresses projected shortfalls that began in 2023 and will continue to build over time unless action is taken
- The amendment will maintain the existing Limited Expense Community status



Note: Above excludes the current annual separate insurance charge

NOT APPROVING THE ASSESSMENT CHANGE CONTINUES FUNDING SHORTFALL

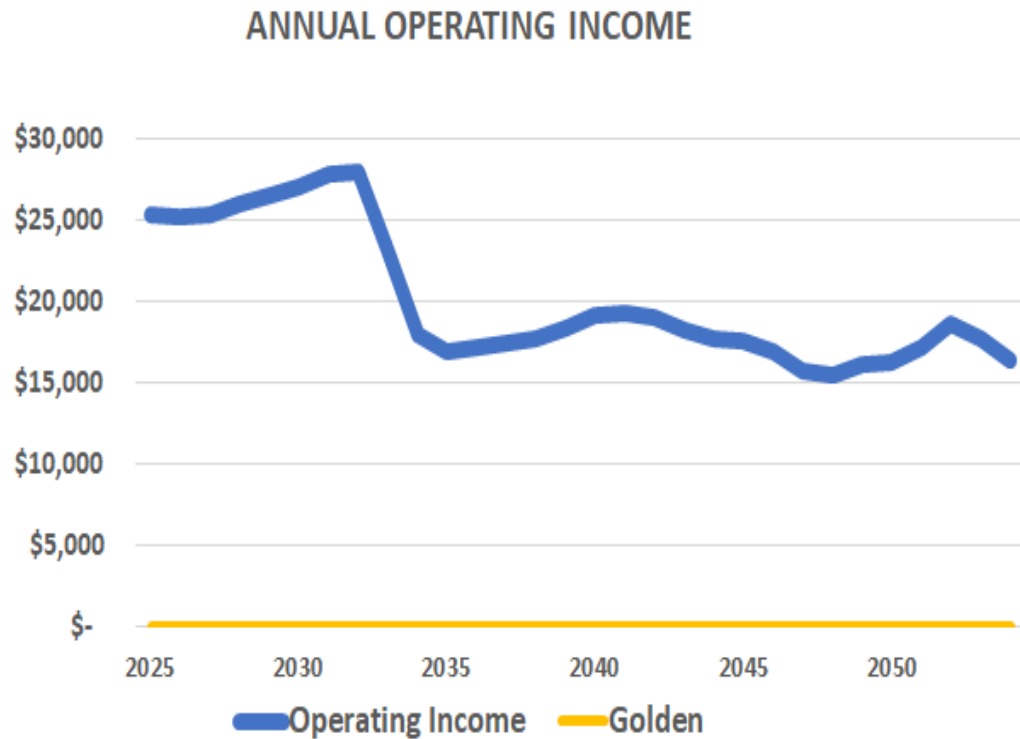


**Assessment Increase Need to Fully Fund Operating Budget
and fund Asset Reserves**



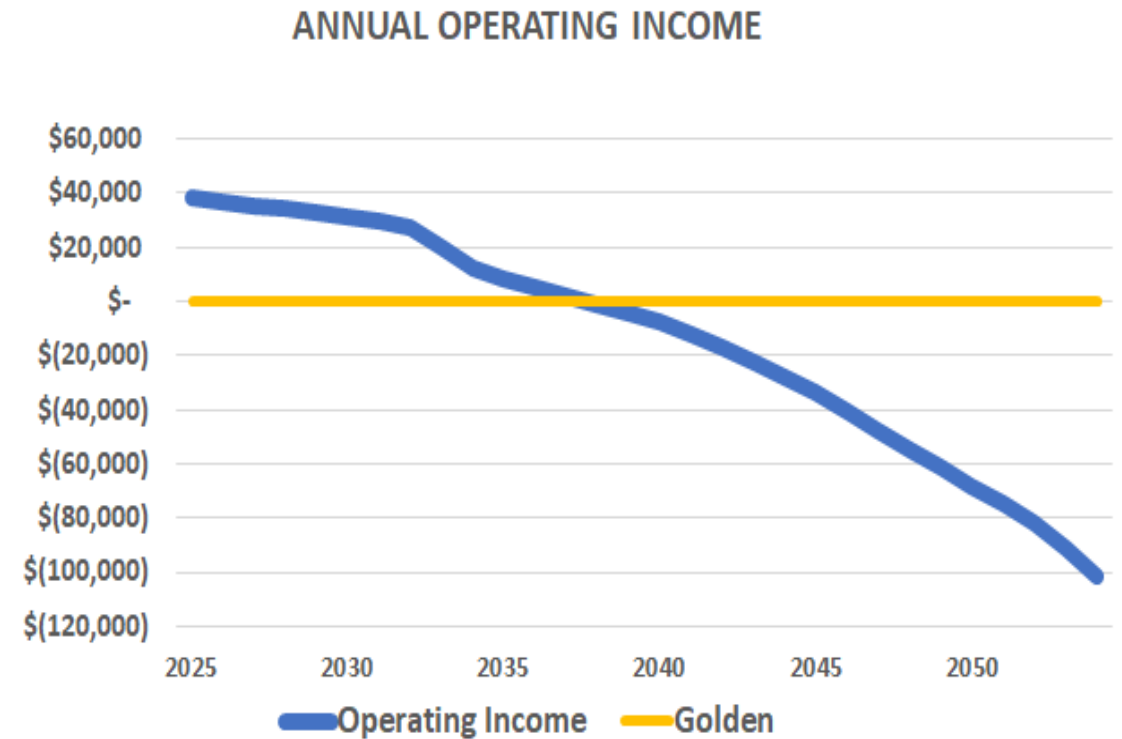
PROPOSAL PROVIDES SOME INFLATION PROTECTION

5% Reserve Inflation



We are ok if asset cost replacement is 5% vs. the 3% assumed in the AR Reserve Study

Annual Expenses Rise 1% Faster Than CPI

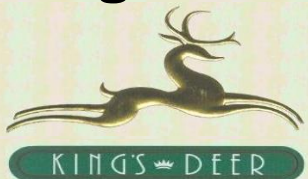


Annual expense inflation needs to be in line with Denver CPI inflation or budget issues occur in the future

BENEFITS



Our Trails, Entrances, Recreational Areas, and Lighting will be kept in great shape for your enjoyment



Your Property Value is enhanced by high quality amenities



Preservation of Community Aesthetics

1

Enhanced Amenities

3

Cost Sharing and Economies of Scale

5

2

Proper Infrastructure Maintenance

4

Increased Property Value



WHAT HAPPENS IF THE ASSESSMENT CHANGES DON'T PASS?

SPECIAL ASSESSMENT



- Requires covenant change the same as the proposed assessment change
- Questionable if a Special Assessment would pass if this proposal does not

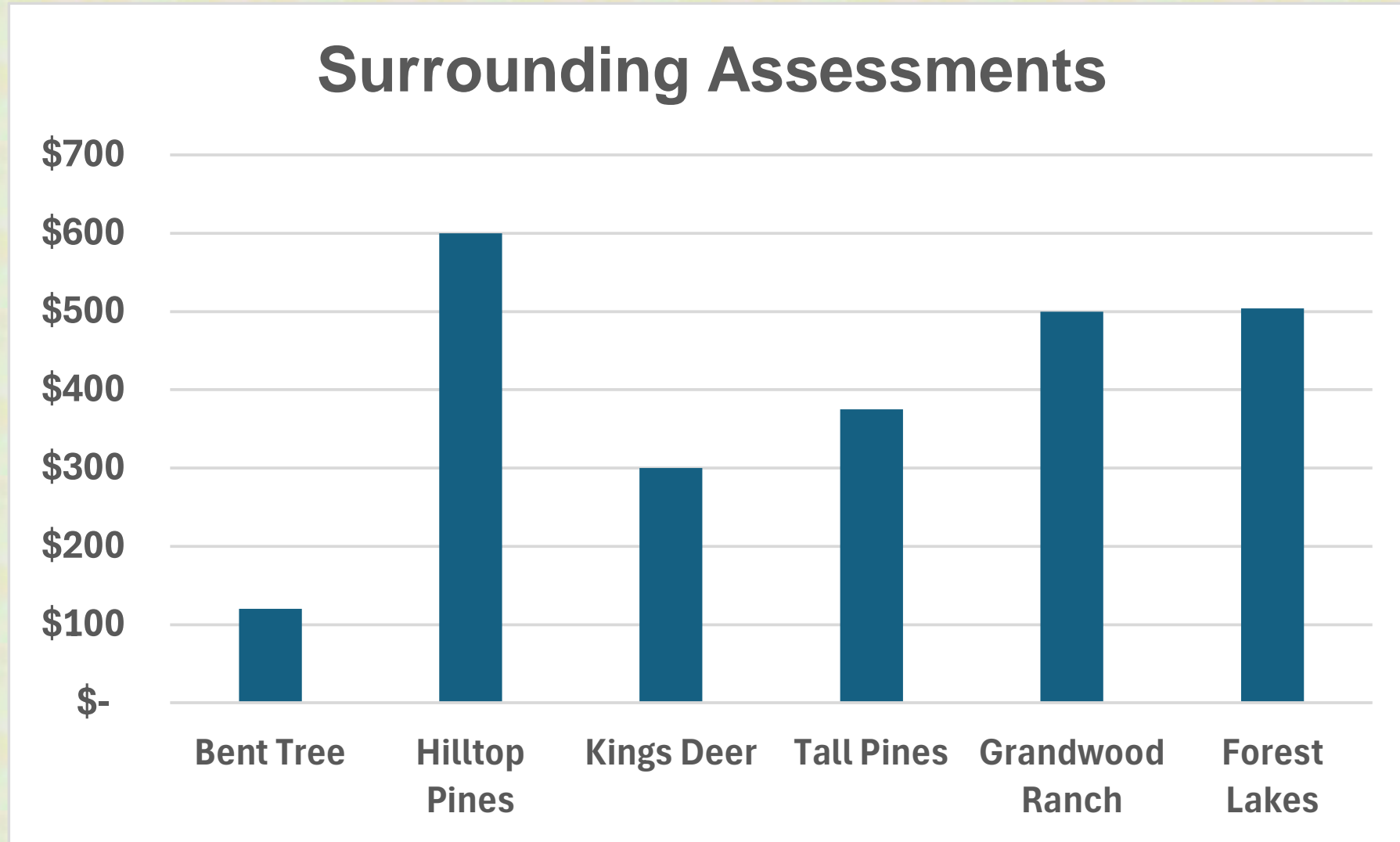
TRAILS/MONUMENTS/LIGHTS DETERIORATE AND HOA MGT AND MAINTENANCE CUTS



- Operating budget cuts reducing or eliminating administrative and/or annual maintenance
- **AND** existing Reserve funds will be spent until = \$0 when no community assets will be refurbished or replaced

MOST LIKELY OUTCOME

WHAT ARE ASSESSMENTS FOR OTHER COMMUNITIES* ?



** Assessments not directly comparable due to variations in services provided and other fees charged by the various associations*



FAQ AND ANSWERS

QUESTION	ANSWER
Why are we using the Denver-Boulder CPI Index?	It is representative of our region and is specified in Colorado statutes for Limited Expense Communities
What is the current Limited Expense Community annual assessment threshold?	The 2023 limit adjusted for CPI inflation = \$799.90.
What happens if only one of either Highlands or Classic passes the initiative?	The changes will only be implemented if both Highlands and Classic pass the changes
Will we have a special assessment if the changes do not pass?	A special assessment will require a covenant change which is not likely to pass if the proposed changes do not pass
What is the approval threshold for Classic and Highlands?	Classic requires 2/3 and Highlands 50% or more of all members to approve before covenant changes are effective
Why not have a separate vote for the \$150/year increase and the annual CPI Adjustment?	We need both the \$300 to \$450 increase as well as the ability to adjust assessments for inflation to be financially viable for the long term
Will there be a CPI adjustment every year?	The Board will determine any assessment increase annually, if needed. There could be years with no increase.

FAQ AND ANSWERS (Continued)

QUESTION	ANSWER
Can we eliminate some of the assets to reduce maintenance expenses?	This is an option, although the majority of the maintenance costs are for the trails.
What is a Limited Expense Community and why is it important?	A community with member assessments below currently \$800/Year. Important because: <ul style="list-style-type: none"><input type="checkbox"/> Limits annual assessments<input type="checkbox"/> Reduces bureaucracy and administrative costs
Why is an increase necessary now?	All revenue is now consumed by operating costs with no \$ available to set aside for reserves given flat revenues and inflation.
What increase is being proposed and how will it work going forward?	Increase annual assessment from \$300 to \$450 per year with the ability to increase limited to Denver Area CPI annual increase
Are there payment options other than 1X annually?	Payments are typically made annually but there are options for 2 or 4 equal installments for an additional administrative fee
What happens if the change is rejected?	Assets could be removed or left to disrepair. Operating budget cuts will also occur reducing maintenance or admin services
Is the playground equipment really costing us \$178,000?	The cost to replace all of the playground equipment is \$178,000. The annual cost to maintain the equipment is minimal.

Any Additional Questions?



WHAT HAPPENS NEXT?

QUESTION

ANSWER

What items are we voting on?

There are two ballots:

- Board of Directors voting (as in previous years)
- Proposed Covenant Change

When is the Election?

Start Date: Friday September 6th

End Date: Thursday October 31st

How are we voting?

- Electronic Voting using Vote HOA Now software
- Email will be sent on 9/6 with link to HOA NOW site
- Paper ballots will be mailed as well
- Vote HOA Now electronic ballot is the official book of record



When will results be final and how will the results be communicated?

- Results will be final on Tuesday November 5th
- Results will be communicated to all members by November 12th

**Please support the covenant change
to keep our community in sound
financial condition for years to come.**



PROPOSED COVENANT LANGUAGE

Limitation on Annual Assessments: Prior to the beginning of each fiscal year, the Board shall prepare a budget covering the estimated costs of operating the community during the coming year, including an annual reserve contribution for replacement of improvements that are the Association's responsibility, and the Board shall establish the annual assessment or installments for the coming year, as follows:

- (a) The annual assessment per Lot shall be \$450.00 for the fiscal year beginning January 1, 2025 and ending December 31, 2025, exclusive of any optional user's fees and any insurance premiums paid by the Association. After that year, the maximum annual assessment shall be increased at a rate not to exceed the increase, if any, in the United States Department of Labor Statistics final consumer price index for the Denver-Boulder consolidated metropolitan statistical area for the preceding 12 months measured as of June 30th of the year prior to the increase date as set forth in C.R.S. § 38-33.3-116, which may be cumulated as set forth therein. The maximum annual assessment shall not be decreased if the final consumer price index for the relevant period decreased. The Board may set the actual annual assessment lower than the maximum.
- (b) Any increase in excess of the increase in the consumer price index must be approved by a majority of the Owners present and voting at a duly called meeting of the membership, or by ballot in lieu of a meeting as provided by law.
- (c) Notwithstanding any provision of this Declaration to the contrary, the annual Assessment for any Lot, exclusive of any optional user's fees and any insurance premiums paid by the Association, shall never exceed the maximum allowed to qualify as a limited expense planned community pursuant to C.R.S. §38-33.3-116.
- (d) This limit on annual Assessments shall not affect the authority to levy special assessments.

E. Procedure for Annual Assessments: The Assessments shall be payable in an annual amount and shall commence as to all Lots. The Association's Board of Directors may fix the annual Assessment at an amount not in excess of the maximum stated above and shall provide such notice and procedure for budgeting and payment as the Board deems appropriate or as otherwise requirement by law. The Association may furnish to an Owner, upon written request delivered to the Association's registered agent, a written statement setting forth the amount of any unpaid Assessments levied against a Lot, and the statement may be relied upon all Owners acting in good faith thereon as conclusive evidence of payment of such Assessment.



DETAILED FINANCIAL PROJECTIONS WITH CHANGE

			0.0%	3.0%	3.0%	3.0%
Assessment CPI Increase %			0.0%	3.0%	3.0%	3.0%
Expense Inflation %			0.0%	3.0%	3.0%	3.0%
Reserve Inflation			0.0%	3.0%	3.0%	3.0%
	2023	2024F	2025	2026	2027	2028
Income Less Water Rights and Interest	\$ 194,020	\$ 185,550	\$ 178,589	\$ 178,589	\$ 178,589	\$ 178,589
Assessment Increase			79,650	86,819	94,202	101,807
Total Assessments	194,020	185,550	\$ 258,239	265,408	272,791	280,396
Asset Replacement Interest	15,207	11,682	13,133	13,374	14,090	15,245
Water Rights Interest		8,595	8,595	8,595	8,595	8,595
TOTAL INCOME	\$ 209,227	\$ 205,826	\$ 279,967	\$ 287,376	\$ 295,476	\$ 304,236
Administrative Expenses	\$ 108,373	\$ 116,855	\$ 121,161	\$ 124,796	\$ 128,539	\$ 132,396
Maintenance	24,959	34,380	36,099	37,182	38,298	39,447
Utilities/Water	13,718	13,476	14,150	14,575	15,012	15,462
Professional Fees Ex Legal-Water	14,961	14,872	13,312	13,711	14,122	14,546
Insurance	11,134	10,783	8,844	9,110	9,383	9,664
Bad Debt	2,534	1,179	1,238	1,275	1,313	1,353
Mailbox Expense	2,520	1,030	1,082	1,114	1,148	1,182
Legal-Water	218	336	353	363	374	386
TOTAL EXPENSES	\$ 178,417	\$ 192,911	\$ 196,239	\$ 202,126	\$ 208,190	\$ 214,435
OPERATING NET	\$ 30,810	\$ 12,915	\$ 83,728	\$ 85,251	\$ 87,286	\$ 89,801
RESERVE ADDITIONS NEEDED	28,800	28,800	45,000	46,350	47,741	49,173
ANNUAL SURPLUS (SHORTFALL)	\$ 2,010	\$ (15,885)	\$ 38,728	\$ 38,901	\$ 39,546	\$ 40,628
CUMULATIVE SURPLUS (SHORTFALL)			\$ 38,728	\$ 77,629	\$ 117,174	\$ 157,802
ANNUAL SURPLUS (SHORTFALL) Ex WATER		\$ (24,480)	\$ 30,133	\$ 30,306	\$ 30,951	\$ 32,033



BALANCE SHEET

As of June 30, 2024

	Jun-24	Dec-23	Change	Jun-23	Change
ASSETS:					
Bank Accounts	\$ 215,077	\$ 233,618	\$ (18,542)	\$ 291,546	\$ (76,469)
CDs	418,175	418,175	-	410,450	7,725
Accounts Receivable	939	44,364	(43,425)	2,380	(1,441)
Other Assets	1,532	7,044	(5,512)	10,195	(8,663)
TOTAL ASSETS	\$ 635,722	\$ 703,201	\$ (67,479)	\$ 714,571	\$ (78,849)
LIABILITIES:					
Unearned Owner Assessments	\$ 79,650	\$ 159,300	\$ (79,650)	\$ 79,650	\$ -
Compliance Fee Deposits	28,750	27,750	1,000	40,350	(11,600)
Total Accrued Expenses	1,979	2,014	(35)	1,858	120
Other	9,613	14,322	(4,709)	6,305	3,308
TOTAL LIABILITIES	\$ 119,992	\$ 203,386	\$ (83,394)	\$ 128,164	\$ (8,171)
EQUITY:					
Reserve Fund (Unallocated)	\$ 336,992	\$ 328,761	\$ 8,231	\$ 412,049	\$ (75,057)
Reserve Fund (Water Initiative)	164,075	159,778	4,297	157,886	6,189
Other	14,663	11,275	3,387	16,472	(1,809)
TOTAL EQUITY	\$ 515,730	\$ 499,815	\$ 15,916	\$ 586,407	\$ (70,677)
TOTAL LIABILITIES AND EQUITY	\$ 635,722	\$ 703,201	\$ (67,479)	\$ 714,571	\$ (78,849)



- Currently sufficient Reserves per Association Reserves 2024 Reserve Study but shortfalls coming soon
- Moved Funds into CDs in Q1 2023 resulting in an additional \$18,000/Year of Interest Income