RECORD OF PROCEEDINGS

RIVERWALK DIAMOND BUILDING ASSOCIATION, INC.
2017 ANNUAL MEETING OF THE MEMBERS
JANUARY 4, 2018

MINUTES

The Annual Meeting of the Members of the Riverwalk Diamond Building Association, Inc. (hereinafter "Diamond Association") was held at 4:00 p.m., Thursday, Jan. 4, 2018, in the Inn at Riverwalk Boardroom, 27 Main Street, Edwards, Colorado, in accordance with the applicable statutes of the State of Colorado.

Attendance

The following Members were present:

- Steve Lincks – C104, C105, C106E, C106W
- Patti Dixon - C101
- Asa & Margie Clark – R202
- Riverwalk Assoc., LLLP – G001, C102, C103W, C107W, O201 - Todd Williams
- Aprisent Financial Group - O203 by proxy to Rebecca Green
- Carol Moore Mink - O204 by proxy to Rebecca Green
- R.J. Meuleman Trust - R203 by proxy to Todd Williams
- T. A. Roubos Trust - R205 by proxy to Todd Williams
- Sienna La Rene - O202 by proxy to Steve Lincks

- Also in attendance were:
- Steve Simonett - Slifer Management Company
- Heidi Hanson - Slifer Management Company

Call to Order

Director Clark, noting a quorum was present, called the Annual Meeting of the Diamond Bldg. Association to order at 4:10 p.m. Mr. Simonett provided Proof of Notice.

Previous Minutes

The Members reviewed the Minutes of the January 5, 2017 meeting. Upon a motion duly made and seconded, it was unanimously;

> **Resolved** to approve the Minutes of the 2016 Annual Meeting.

Maintenance Report

Management gave an overview of the 2017 maintenance issues which included replacing the 2nd floor west skylight and adding water filters to the circulation lines to slow deterioration. The annual roof inspection had been completed and minor repairs made. Bi-annual common area carpet and window cleanings were also completed.

Financials

Management presented the 2017 Financials. Discussion of the Balance Sheet and the Profit and Loss Statement followed. The BS shows the Reserve Fund to have $159K and the Operating account $34K and there are no delinquent owner accounts. The P&L shows an estimated EOY Income of $7800 for 2017. Upon a motion duly made and seconded, it was unanimously;

> **Resolved** to approve the transfer the Excess Income to the Replacement Reserve Fund.

Proposed Budget

The 2018 Budget was presented as approved by the Board. Upon a motion duly made and seconded, it was unanimously;

> **Resolved** to ratify the 2018 Budget as presented.

Management was asked that in the future the Budget Income Assessments lines be divided out between Operating and Replacement Reserves totals. There were no objections.

Director Election

Director Clark's term was expiring. Upon a nomination duly made and seconded, and there being no other nominations, Mr. Clark was;

> **By Acclamation**, Ace Clark was re-elected as the Residential Director, with a term ending in 2020.
>
> Director Lincks' (At-Large) term ends in 2018
> Director Williams' (Commercial) term ends in 2019

New Business

A request to purchase an additional mail cluster box that would accommodate packages was made and Management was asked to investigate the feasibility and cost of the box and report back to the Executive Board. Discussion of the deteriorating condition of the riverside exterior stairs followed with Management being asked to meet with the Master Association's manager to evaluate the situation and potential remedies. Diamond Building security was discussed. Windows and doors are being left open overnight which defeats the purpose of having timer door locks. Management will continue to remind occupants to close windows and doors behind them when leaving for the day. The Master Security Personnel will also be asked to help secure the halls at night.

At the request of one of the Members, the Board will consider a re-evaluation of the Replacement Reserves Study allocation percentages for the two ownership categories (Residential/Commercial). A summary of the Member's recommendations was requested for the Board's review.

Other Business

Mr. Clark reported on the DBA Reserve Fund Plan (RFP) as of the end of 2017. First, he reviewed the DBA RFP overall. Created and managed by the DBAB, with assistance and advice from SMC and professional advisors, the RFP aims to serve the following **goals** for all owners.

- Support routine repairs and maintenance with a focus on timely, efficient long-term care of the DB at minimum inconvenience to owners.
- Update/improve the safety and functioning condition of the DB.
- Improve the attractiveness and appearance of the DB.
- Optimize the care of the DB to enhance property/asset value.
- Fund annual and long-term care of the DB at fair, reasonable, consistent $-burden to owners.

The RFP focuses on these goals through:

- A **Physical Plan** to plan and manage long-term maintenance and care for the DB at two levels <u>independently of routine annual repairs and maintenance (funded by our operating budget)</u>:
  - expensive (more than $5,000), infrequent necessary investments in major building infrastructure such as boilers and elevators, and
  - discretionary improvements in the building such as elevator décor or a building security system.
- A **Financial Plan** to fund this stream of care at a reasonable, consistent, sufficient level of financial burden on owners. The RF is seeded annually from the RF line in the operating budget that is supported by monthly general

assessments on owners. This seed capital is leveraged over the long-term through compounding returns on prudent investments in a portfolio of liquid assets designed with a moderate risk/reward profile.

- **Managing** these plans is a complex and dynamic challenge. Best results and accountability are achieved through roles and checks and balances involving the DBAB, SMC, all owners, and Northwestern Mutual, the investment manager and custodian that we engaged in 2015.

Second, we discussed the excellent state of our building, to include major repairs/replacements completed in 2017. In addition, we updated our Physical Plan by discussing anticipated repairs and maintenance for 2018 and 2019. We agreed:

- To defer planned repairs that are unnecessary now:
    - Exterior lighting replacements deferred to 2020.
    - Replacement of hallway floor tiles deferred until 2023 when carpeting is scheduled for replacement. Doing these together is more efficient and avoids the waste of collateral damage.
- To make planned repairs that are necessary now. A team of TW, SL, and SS will inspect these areas and decide what repairs are necessary and value-additive.
    - Replace windows and frames as necessary at west end of DB (across from R201 and in the west stairwell).
    - Repair, paint, and refurbish the west stairwell (south wall sheetrock, railings, stairway).

Third, he reviewed “the problem” facing the DBA: the expensive, massive reconstruction of the DB in 2010/11 carries a legacy of 20-year life-cycle maturities of many major infrastructures that we must anticipate and plan for in terms of confronting us with a spike of expensive investments in/around 2030. How do we best generate funding for this anticipated expense spike? This is the challenge that motivates us to lean on the principle to “plan for the worst and manage to better outcomes in a long-term perspective.”

Fourth, he reported on the specific measures that we agreed in our 2015 Annual Meeting to tackle this challenge: [a] to continue our policy since 2010 of increasing our operating budget RF line by 5% annually; and [b] to shift the investment profile of our RF from the former "sleepy" but safe return yielded by 5-year CDs (.41% pa) to a moderate risk/reward profile of a portfolio, targeted at a 5% annualized return of diversified capital markets assets. How have we done? Mr. Clark reported our progress to date.

- In 2015 we, transferred our RF cash balance into a RF investment portfolio and engaged an independent national investment manager to provide custodian services for this portfolio on our behalf for a reasonable fee. Because our portfolio was below AUM minimums, we were restricted to an initial 'holding portfolio allocation' which exposed us to losses from plunging energy markets, and we lost 3%.

- In 2016, consistent with our long-term view, we transferred 2016 RF accruals into our investment portfolio to bring it above the minimums required by our custodian. As a result, we were allowed discretion to re-craft our portfolio asset allocation. Approved by the DBAB and our custodian, this adjusted portfolio generated 5% returns and put us on our target trajectory for consistent long-term growth.

- In 2017, we transferred 2017 RF accruals into our investment portfolio and rebalanced the asset allocation to take advantage of strong markets. The result was 10% returns for the year.

- Taken together, this 3-year start-up period achieved a 4% annualized return. Our discretionary portfolio generated 7% annualized returns for the 2016/2017 period. These demonstrated results give us comfort that we are operating on a reasonable, appropriate risk/return profile to achieve 4% to 7% annualized returns going forward.

In conclusion, looking ahead, Mr. Clark highlighted how we continually manage and revise our DBA Reserve Fund Plan in terms of both its physical and financial domains to stay on track. We can be comfortable that our continuous portfolio asset diversification will allow us to ride through market fluctuations, without the added risk of trading to time market changes, to grow our RF to fund proper care of our DB infrastructure out to the 30th anniversary of our building, and to leverage growth of our RF to mitigate "the expense spike" that may follow in 2030.

Following a full discussion, the Members supported this conclusion and approved the report and recommendation to transfer residual 2017 net income into our investment portfolio by vote.

Adjournment

There being no further business to come before the members, by motion duly made and seconded, it was unanimously

> **Resolved** to adjourn the 2017 Annual Meeting. The meeting was adjourned at 5:20 p.m.

Respectfully Submitted,

Steve Simonett
Slifer Management Company