

Summary

2012

Reserve Asset Management Report

for the

Sample
Homeowners Association

October 2011



Reserve Asset Management
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SUMMARY

Reserve Asset Management Report

This report represents a compilation of findings as they relate to the SAMPLE Homeowners Association. The SAMPLE Homeowners Association is a 24 member, condominium common interest development, located in Small-town, California. The timeline for this report begins on the association's next fiscal year, January 1, 2012 and continues through December 31, 2021. This equates to a ten year period of recommendations and projections for this summary.

This report includes recommendations on reserve related expenditures, a suggested funding program to meet those expenditures and the calculations used to determine the frequency, current cost and future cost of those expenditures. This report was compiled through recording actual expenditures which took place during the Association's previous and past fiscal years, a physical on-site inspection of the association's major components and consultation with current service providers which the association employs or contracts. Information on the actual costs of those previous expenditures has been provided by the association's current managing agent or service provider. Also, this report has been conducted in compliance with California Civil Codes 1365 and 1365.5.

Items within this report, listed as reserve assets (components) were determined to be included by conducting a review of the association's governing documents. The maintenance section of the association's CC & R's provides an outline of those major components which are the common area maintenance responsibility of the association, thus included within this report. It is also common practice to utilize a previously prepared list of components which has been prepared by other professionals. Reserve Asset Management makes every effort to scrutinize and/or validate these types of lists to be certain of their accuracy, prior to inclusion and publication.

The State of California Civil Codes 1365 and 1365.5 have been designed to ensure that critical information, pertinent to the preparation of an association's reserve report, be included for each association member's review. The critical requirements of inclusion are briefly described below:

- Specify each major common area component the association is required to maintain.
- Include a current, real world, **estimated useful life** to each component.
- Include a current, real world, **estimated remaining life** for each component.
- Include an **estimated replacement cost** for each component using current industry standard pricing.
- Include a **recommended annual reserve contribution** for each of the next thirty years. This annual contribution is designed to allow the execution of those recommended expenditures.
- Disclose to the membership an **estimated reserve cash level** the association should hold in reserves in order to maintain the major components.
- Disclose to the membership the **actual current cash level** the association has in reserve.
- Include the association's **calculated percent funded** in relation to cash in the bank compared to the association's accrued liability.
- Disclose to the association as to whether any future special assessments will be required to execute the future expenditures.
- Include a general explanation of the over-all methodology used to create the reserve report.

This report consists of four (4) major parts:

1. **Recommended Expenditures** –

This section accounts for each component and depicts the year(s) in which the repair and/or replacement action is scheduled to occur. This section is broken down into five (5) year increments and continues for a total of thirty years. Moving from left to right in line with a given component, the frequency of the action is depicted. Moving from top to bottom within the annual columns, one can review all expenditures scheduled for that year and the total dollar amount scheduled for extraction.

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2. Recommended Reserve Contribution –

This section displays an annual reserve contribution that will allow the association to meet its maintenance requirements for any given year. We have utilized a cash flow funding model that not only allows the association to meet its maintenance requirements but also allows for a positive cash balance moving forward, without unnecessarily overfunding reserves.

Included in our annual contribution calculations are the **interest earned on deposited funds** and an **annual inflation factor on expenditures**.

Interest Earned on deposited funds will vary from year to year depending on market fluctuations. However, we have calculated a fixed percentage rate of **1.0%** to be earned over the life of this report.

This creates a median rate through the course of this 30 year report, while allowing for market fluctuations.

Annual Inflation Rates fluctuate in our ever diverse economy. It has proven over many years that applying a fixed annual percentage rate to each annual expenditure, in the amount of **3.0%**, has proven to accommodate each component's replacement cost at the time of expenditure. However, many factors can affect this rationale. Therefore, it is highly recommended that every study be reviewed and updated, at least annually.

The funding schedule for this study has a built in threshold margin of 10%. This margin draws attention to the fiscal year ending balances depicted at the bottom of each of the vertical funding column. The premise for this threshold is that in any given year, the ending balance, in dollars, will total at least 10% of the amount that was spent on the expenditures within that same year. This 10% margin provides for some minimal cost over-runs or any minor "out of the ordinary" repair or replacement expense. Additionally, if not expired, these monies are carried forward to the next fiscal year as they were scheduled for collection and should have been deposited.

3. Asset Calculations –

This section depicts the name of each component that has been included for review. In most cases, where applicable, the component description will also contain an action. This action describes what we are funding for this particular component, repair – replacement – paint – inspection – refurbishment etc. This section also depicts the type of component, its estimated quantity, estimated useful life, estimated remaining life and the current replacement cost. It also may or may not include specific notes referencing the asset.

4. Liability on Assets – Accrual

This section provides information on the annual amount of accrued debt that each asset has acquired while in anticipation of its repair and or replacement action. This is calculated in the following manner:

$$(\text{Current replacement cost} / \text{Useful life}) = \text{Annual Liability}$$

$$((\text{Life used or Useful life} - \text{Remaining life}) \times \text{Annual liability}) = \text{Accrued Liability}$$

It also provides information on the total amount of accrual accumulated, to date, for all assets (components).

It also provides proration percentages which are useful when calculating variable assessments.

During the preparation of this report, some assumptions have been made regarding an asset's longevity and/or susceptibility to failure. All materials do not age according to manufacturers' specifications. Some last longer and some not quite as long. In conjunction, strict adherence to manufacturers' recommendations, during the original installation and/or subsequent repair or replacement cycles are not always realized. Thus, the useful life, remaining life and replacement costs may contain variances at the time of expenditure. Reserve Asset Management has made reasonable and educated assumptions as to when these replacement cycles and associated cost will take place. We can not be responsible for events that are unanticipated or circumstances that may occur subsequent to the date of this report. We can not be responsible for improper or faulty installation by

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others. Therefore, upon execution of a repair cycle, the actual replacement costs may vary from this report. All life expectancies are based on reasonable industry experience. The attachment of a useful and/or a remaining life to a component within this report will be done so with the assumption that all components were/ are in a reasonable and ordinary condition at the time of the preparation of this report.

An asset that has been included within this report has met the following requirements:

1. The maintenance of the asset is the responsibility of the association;
2. The maintenance of the asset is not included in the associations annual operating budget;
3. The estimated useful life of the component is greater than one year; and
4. The estimated remaining life of the component is less than 30 years.

FUNDING RECOMMENDATION

Based on conclusions drawn within in this report, it is our recommendation that the following adjustments be made to the associations' future funding plan:

1. Estimated reserve balance on January 1, 2012.....\$429,730
2. The reserve contribution in 2011 was\$44,791
3. The reserve contribution for 2012 should be\$46,135
4. Percent increase to reserves over 20113.0%
5. Percent increase to total assessment over 20111.0%
6. The inflation rate calculated on each component, per annum is.....3.0%
7. Assumption: All **after tax** interest, which is earned on reserve fund investments, will be maintained within the reserve account.

These funding adjustments are not reliant upon special assessments.

DISCLOSURE STATEMENT

This report recommends an annual contribution to reserves which allows the association to meet the recommended expenditures without the vote of the membership. Based on the assumption that the association elects to fund reserves as recommended, the percent funded (as of January 1, 2012) is calculated as follows:

Accumulated Cash Reserves

Accrued Liability

Estimated reserve cash as of January 1, 2012\$429,730

Accumulated Cash

Estimated reserve liability as of January 1, 2012\$585,886

Accrued Liability

Percent Funded 73%

Estimated percent funded for the next five years

Fiscal Year	Estimated Reserve Balance	Estimated Reserve Liability	Estimated Percent Funded
2012	\$429,730	\$585,886	73%
2013	\$138,006	\$300,471	46%
2014	\$20,387	\$189,815	11%
2015	\$36,894	\$212,361	17%
2016	\$70,365	\$250,155	28%

RECOMMENDED EXPENDITURES

Inflation Rate Applied per Annum..... 3.0%

RESERVE COMPONENTS	Percent Repair of total amt.	Current Calculated Cost	Estimated Useful Life	Estimated Remaining Life	Fiscal Year Jan 1 Dec 31	(1) 2012 2012	(2) 2013 2013	(3) 2014 2014	(4) 2015 2015	(5) 2016 2016
BUILDING EXTERIORS:										
1 - Complete Exterior Painting		71,400	7	2			73,542			
2 - Siding & Trim Repairs	10%	29,400	7	2			30,282			
3 - Siding & Trim Repairs (Minor - One Time Event)		5,000	1	1		5,000				
BUILDING EXTERIORS - POOL BUILDING:										
4 - Complete Exterior Painting		1,500	7	2			1,545			
5 - Siding / Trim / Doors etc. Repair		3,000	7	2			3,090			
BUILDING INTERIOR - POOL RESTROOM:										
6 - Paint / Refurbish / Update		2,500	15	2			2,575			
FENCING / RAILS & WALLS										
7 - Wire Fence Repair - 3' @ Perimeter		10,912	18	10						
8 - Wire Fence Repair - 6' @ Pool Area		3,542	18	10						
9 - Wire Fence Repair - 10' @ Tennis Court		8,180	18	10						
10 - Privacy Screening Fence @ Pool Area		452	10	3				479		
11 - Retaining Wall @ Corner - Entry Area		34,145	35	31						
12 - Retaining Wall @ Vineyard Perimeter		48,177	20	8						
13 - Wood Fence - 6' @ Side & Rear Perimeter		18,718	20	14						
14 - Wood Fence - 6' Remaining		24,785	20	14						
GATES:										
15 - Wrought Iron Pool Gate Paint		145	7	2			149			
16 - Wrought Iron Pool Gate - Hardware Replace		477	14	2			492			
LANDSCAPING:										
17 - Backflow Devices Replace		1,545	25	3				1,639		
18 - Irrigation Timers Replace		2,251	15	3				2,388		
19 - Landscaping Valves Replace		750	1	1		750	773	796	820	844
20 - Landscaping Improvements		5,305	5	3				5,628		
21 - Tree Maintenance / Removal & Replacement		1,700	2	2			1,751		1,858	
LIGHT FIXTURES - EXTERIOR:										
22 - Globe & Post Fixtures Replace		52,163	30	26						
23 - Vanity Fixtures Replace - Bathrooms		250	30	6						
24 - Submersible Pool Fixtures Replace		264	8	3				281		
PAVED SURFACES:										
25 - Asphalt - Major Repairs	50%	63,556	20	12						
26 - Asphalt - Minor Repairs	25%	31,778	10	2			32,731			
27 - Asphalt - Sealcoat & Stripe		5,871	5	2			6,047			
28 - Asphalt Path @ YTV Cross Rd Entry & YTV St.		8,548	30	2			8,805			
29 - Concrete Curb & Gutter Repairs		3,378	25	17						
30 - Concrete Pool Decking Repairs	1%	2,066	10	4					2,258	
31 - Tennis Court Color Coat & Repairs		8,928	6	4					9,756	
32 - Tennis Court Over-Lay & Stripe		32,400	21	10						

RECOMMENDED EXPENDITURES

Inflation Rate Applied per Annum..... 3.0%

RESERVE COMPONENTS	Percent Repair of total amt.	Current	Estimated		Fiscal Year	(1)	(2)	(3)	(4)	(5)
		Calculated Cost	Useful Life	Remaining Life	Jan 1 Dec 31	2012 2012	2013 2013	2014 2014	2015 2015	2016 2016
RECREATION FACILITIES - POOL:										
33 - Chlorinator Replace		535	7	2			551			
34 - Pool Filter Replace		1,688	15	6						
35 - Pool Pump Replace		1,182	10	2			1,217			
36 - Solar Controller Replace		647	10	3				687		
37 - Solar Panels Replace		6,489	25	3				6,884		
38 - Solar Structure Replace		8,441	25	3				8,955		
39 - Pool Timers Replace		619	15	3				657		
40 - Pool Interior Resurface		13,717	12	6						
41 - Pool Tile & Coping Replace		5,965	24	18						
42 - Bench Seating Repair		936	25	25						
43 - Pool Patio Furniture Replace		500	7	7						
RECREATION FACILITIES - TENNIS COURT:										
44 - Bench Seating Repair		312	25	25						
45 - Net Replacement		200	7	7						
46 - Privacy Screening Replace - 10'		1,296	12	3				1,375		
ROOFING SYSTEM:										
47 - Composition Shingles Replace w/ 40yr		332,627	40	1		332,627				
48 - Gutters & Downspouts Replace		28,126	25	22						
SAFETY - FIRE:										
49 - Fire Extinguisher Cabinets Replace		1,874	25	20						
50 - Fire Extinguishers Replace		800	25	20						
MISCELLANEOUS:										
51 - Signage, Paint - Entry		241	7	4					263	
52 - Signage, Carved Wood & Posts		711	25	22						
53 - Mutt Mitt Station Replace		478	15	3				507		
UNSCHEDULED.....	5%					2,307	2,376	2,447	2,521	2,596
TOTAL EXPENDITURES		890,470				340,683	165,926	32,723	17,475	3,440

RECOMMENDED EXPENDITURES

Inflation Rate Applied per Annum..... 3.0%

RESERVE COMPONENTS	Percent Repair of total amt.	Current Calculated Cost	Estimated Useful Life	Estimated Remaining Life	Fiscal Year Jan 1 Dec 31	(6) 2017 2017	(7) 2018 2018	(8) 2019 2019	(9) 2020 2020	(10) 2021 2021
BUILDING EXTERIORS:										
1 - Complete Exterior Painting		71,400	7	2					90,447	
2 - Siding & Trim Repairs	10%	29,400	7	2					37,243	
3 - Siding & Trim Repairs (Minor - One Time Event)		5,000	1	1						
BUILDING EXTERIORS - POOL BUILDING:										
4 - Complete Exterior Painting		1,500	7	2					1,900	
5 - Siding / Trim / Doors etc. Repair		3,000	7	2					3,800	
BUILDING INTERIOR - POOL RESTROOM:										
6 - Paint / Refurbish / Update		2,500	15	2						
FENCING / RAILS & WALLS										
7 - Wire Fence Repair - 3' @ Perimeter		10,912	18	10						14,237
8 - Wire Fence Repair - 6' @ Pool Area		3,542	18	10						4,622
9 - Wire Fence Repair - 10' @ Tennis Court		8,180	18	10						10,673
10 - Privacy Screening Fence @ Pool Area		452	10	3						
11 - Retaining Wall @ Corner - Entry Area		34,145	35	31						
12 - Retaining Wall @ Vineyard Perimeter		48,177	20	8				59,251		
13 - Wood Fence - 6' @ Side & Rear Perimeter		18,718	20	14						
14 - Wood Fence - 6' Remaining		24,785	20	14						
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LANDSCAPING:										
17 - Backflow Devices Replace		1,545	25	3						
18 - Irrigation Timers Replace		2,251	15	3						
19 - Landscaping Valves Replace		750	1	1		869	896	922	950	979
20 - Landscaping Improvements		5,305	5	3				6,524		
21 - Tree Maintenance / Removal & Replacement		1,700	2	2		1,971		2,091		2,218
LIGHT FIXTURES - EXTERIOR:										
22 - Globe & Post Fixtures Replace		52,163	30	26						
23 - Vanity Fixtures Replace - Bathrooms		250	30	6		290				
24 - Submersible Pool Fixtures Replace		264	8	3						
PAVED SURFACES:										
25 - Asphalt - Major Repairs	50%	63,556	20	12						
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28 - Asphalt Path @ YTV Cross Rd Entry & YTV St.		8,548	30	2			7,011			
29 - Concrete Curb & Gutter Repairs		3,378	25	17						
30 - Concrete Pool Decking Repairs		2,066	10	4						
31 - Tennis Court Color Coat & Repairs	1%	8,928	6	4						11,649
32 - Tennis Court Over-Lay & Stripe		32,400	21	10						42,275

RECOMMENDED EXPENDITURES

Inflation Rate Applied per Annum..... 3.0%

RESERVE COMPONENTS	Percent Repair of total amt.	Current	Estimated		Fiscal Year	(6)	(7)	(8)	(9)	(10)
		Calculated Cost	Useful Life	Remaining Life	Jan 1 Dec 31	2017 2017	2018 2018	2019 2019	2020 2020	2021 2021
RECREATION FACILITIES - POOL:										
33 - Chlorinator Replace		535	7	2					677	
34 - Pool Filter Replace		1,688	15	6		1,957				
35 - Pool Pump Replace		1,182	10	2						
36 - Solar Controller Replace		647	10	3						
37 - Solar Panels Replace		6,489	25	3						
38 - Solar Structure Replace		8,441	25	3						
39 - Pool Timers Replace		619	15	3						
40 - Pool Interior Resurface		13,717	12	6		15,902				
41 - Pool Tile & Coping Replace		5,965	24	18						
42 - Bench Seating Repair		936	25	25						
43 - Pool Patio Furniture Replace		500	7	7			597			
RECREATION FACILITIES - TENNIS COURT:										
44 - Bench Seating Repair		312	25	25						
45 - Net Replacement		200	7	7			239			
46 - Privacy Screening Replace - 10'		1,296	12	3						
ROOFING SYSTEM:										
47 - Composition Shingles Replace w/ 40yr		332,627	40	1						
48 - Gutters & Downspouts Replace		28,126	25	22						
SAFETY - FIRE:										
49 - Fire Extinguisher Cabinets Replace		1,874	25	20						
50 - Fire Extinguishers Replace		800	25	20						
MISCELLANEOUS:										
51 - Signage, Paint - Entry		241	7	4						
52 - Signage, Carved Wood & Posts		711	25	22						
53 - Mutt Mitt Station Replace		478	15	3						
UNSCHEDULED.....	5%					2,682	2,770	2,861	2,955	3,052
TOTAL EXPENDITURES		890,470				23,670	11,512	71,649	138,157	89,704

RECOMMENDED ASSET CONTRIBUTIONS

Projected Cash Balances

