

THOMPSON DRAW II

2003 RESERVE STUDY ANALYSIS

This reserve analysis study and the parameters under which it has been completed are based upon information provided in part by members of the association, its contractors, assorted vendors and various construction pricing and scheduling manuals. It has been assumed that all assets have been designed and constructed properly and each estimated useful life will approximate that of the norm per industry standards and/or manufacture specifications used.

Purpose:

This study is a non-scientific summary of Thompson Draw II Home Owners Association's assets for the purpose of helping the TD II Board of Directors and association membership plan its annual budget. Preparing the annual budget and overseeing the association's finances are perhaps the most important responsibilities of board members. The annual operating and reserve budgets reflect the planning and goals of the association and set the level and quality of service for all of the association's activities.

Our reserve study analysis is a multi-purpose tool and an important part of our association's budgetary process. Following its recommendations should ensure the association's smooth budgetary transitions from one fiscal year to the next, and either decrease or eliminate the need for "special assessments". Our reserve study also serves useful in a variety of other purposes:

- The reserve study is often requested by lending institutions during the process of loan applications, both for the community and, in many cases, the individual owners.
- The reserve study is also a detailed inventory of the association's major assets and serves as a management tool for scheduling, coordinating and planning future repairs and replacements.
- The reserve study is a tool which can assist the Board in fulfilling its legal and fiduciary obligations for maintaining the community in a state of good repair. If a community is operating on a special assessment basis, it cannot guarantee that an assessment, when needed, will be passed. Therefore, it cannot guarantee its ability to perform the required repairs or replacements to those major components which the association is obligated to maintain.
- The reserve study is an annual disclosure to the membership concerning the financial condition of the association, and may be used as a "consumers' guide" by prospective purchasers.

Document History

2003: Original study; Jerry & Carol Smith, Mike Jandura.

June, 2007: Original hard copy of Asset Summary converted to spreadsheet and inserted;
Chris Beaupre

The Reserve Budget

Determining Expenses

The budget process begins with an accurate inventory of all the major components for which the association is responsible. The determination of whether an expense should be labeled an operational expense, a reserve expense, or excluded altogether is sometimes subjective. Since this labeling may have a major impact on the financial plans of the association, consider the following when labeling an expense:

Operational Expenses occur at least annually, no matter how large the expense, and can be effectively budgeted for each year. They are characterized as being reasonably predictable both in terms of frequency and cost. Operational expenses include all minor expenses which would not otherwise adversely affect an operational budget from one year to the next. Examples of Operational Expenses include:

Utilities:

Electricity
Water

Administrative:

Bank Service Charges
Licenses, Permits and Fees

Services:

Accounting
Reserve Study

Repair Expenses:

Common Buildings Repair incl:
Roofing, Siding, Fencing, etc.
Water Delivery System Repairs
Operating Contingency

Reserve Expenses are major expenses that occur other than annually and must be budgeted for in advance in order to provide the necessary funds in time for their occurrence. Reserve expenses are reasonably predictable both in terms of frequency and cost. However, they may include significant assets which have an indeterminable but potential liability which may be demonstrated as a likely occurrence. They are expenses that when incurred would have a significant effect on the smooth operation of the budgetary process from one year to the next if they were not reserved for in advance. Examples of reserve Expenses include:

Roof Replacements
Pump House Replacement
Well Pump Replacement
Street Slurry Coating

Water Delivery System Replacement
Water Tank Replacement
Fencing Replacement
Equipment Replacement

Preparing the Reserve Study

Once the reserve assets have been identified and quantified, their respective replacement costs, useful lives and remaining lives must be assigned so that a funding schedule can be constructed. Replacement costs and useful lives can be found in published manuals such as construction estimators and valuation guides. Remaining lives are calculated from the useful lives and ages of assets and adjusted according to conditions such as design, manufacture quality, usage, exposure to the elements and maintenance history.

By following the recommendations of an effective reserve study the association should avoid any major shortfalls. However, to remain accurate, the report should be updated on a regular basis to reflect such changes as shifts in economic parameters, addition of assets, or expenditures of reserve funds. The association can assist in simplifying the reserve analysis update process by keeping accurate records of these changes throughout the year.

The following pages contain a detailed list of Thompson Draw II assets by category including year the asset was placed in service, life expectancy, years of life remaining and estimated replacement costs. Recommended reserve allocations and pertinent remarks are also included. The list, combined with a summary page, completes the reserve analysis study which we recommend be updated on an annual basis due to inflationary changes and the unpredictable nature of the lives of many of the association's assets.

Thompson Draw II – Summary of Assets

<u>Capital Improvement</u>	<u>Replacement Cost</u>	<u>Year Installed</u>	<u>Life Expectancy</u>	<u>Life Expectancy as of 1/1/04</u>	<u>Pro rated \$ req per year</u>	<u>Per HOA member per year</u>	<u>Comment</u>
Well	\$5,200.00	1957	60	13	\$400.00	\$8.51	254ft deep association common well
Pump	\$3,100.00	1996	15	7	\$443.00	\$9.42	full replacement including labor
Tank	\$5,100.00	1989	20	5	\$1,020.00	\$21.70	full replacement including labor
Pump House	\$6,000.00	1957	55	8	\$750.00	\$15.96	based on 250 sf. building 76ft (6ft high with 3 strands of barbed wire on top) around pump house and
Pump House Fence	\$750.00	1957	55	8	\$94.00	\$2.00	association's common well
Pump House Elec.	\$1,450.00	1960	50	6	\$242.00	\$5.15	replacement only Two sheds 4ft X 6ft; first located near pump house, second located mid way up the hill on Pump House Rd., wood frame and siding.
Storage Sheds							
Water Dist. System	\$26,400.00	1957	75	28	\$943.00	\$20.06	based on 10,560 linear feet
Water Valves (47 @	\$4,700.00	1985	30	11	\$427.00	\$9.09	based on 47 association valves
Fire Alarm System	\$2,000.00	2000	30	26	\$77.00	\$1.64	replacement only
Bridge	\$4,000.00	1957	60	13	\$308.00	\$6.55	Raven Rd bridge, six cement culverts, tree trunk cross members, granite surface 3'10" X 3'10" ; 31" deep BBQ Pit with metal lid, located near pump house
BBQ Pit	\$1,000.00	2004	30	30	\$33.00	\$0.70	large rectangular table style BBQ grill with
Grill	\$500.00	2001	30	27	\$19.00	\$0.40	grates
Fence-Perimeter	\$1,700.00	1975	50	21	\$81.00	\$1.72	based on 500' replacement based on 78' width gate , welded frame and
Gate	\$665.00	1975	40	11	\$60.00	\$1.28	metal pipe
Sub Total	\$62,565.00					\$104.19	
Contingency 20%	\$12,513.00					\$20.84	
Total	\$75,078.00					\$125.02	