



Interactive Reserve Analysis

AN EXPLANATION OF THE PHYSICAL PROPERTY ANALYSIS

THE SCHEDULE OF COMPONENTS

The physical analysis of the community is the definition of reserve components, observation of the condition of each component of component group, establishment of the expected useful life, remaining useful life, quantities or measurement of each, projected level of replacement (expressed as a percent of the component), and projected replacement cost per replacement occurrence. All of this information is contained in the Schedule of Components.

RESERVE COMPONENTS DEFINED

Components may include all types of property improvements which are owned by the owners Association, or for which the Association is required by the Declaration to provide maintenance. Examples would include any private roads, parking lots, sidewalks, paved trails, lakes, dams, swimming pools, tennis courts, playgrounds, clubhouses, etc. that make up the common area or shared amenities of the community. Other shared assets may include clubhouse or pool furniture, maintenance equipment and vehicles, or other miscellaneous assets like pumps, motors, generators, etc. Components may also include limited common elements of individual homes or lots, such as driveways, patios, decks, siding and roofing.

OBSERVATIONS AND ASSESSMENT OF COMPONENT CONDITION

The observations and opinions expressed in this report are based on our general professional knowledge of construction and our knowledge of the typical replacement experience of many communities and other entities with the same component types. Our projections are not architectural or engineering recommendations for specific projects. The Board of Directors should seek professional or industry assistance for each specific replacement project, based on the conditions in existence at the time of replacement and as the need for replacement or repair becomes imminent.

For the purposes of evaluation, the following definitions apply to terms describing the condition of components:

Excellent: New or like-new condition – no specific maintenance is required at this time.

Good: Physically and visually sound and complete – corrective or preventive maintenance is recommended to maintain condition.

Fair: Serviceable but needs some repair or significant maintenance.

Poor: Major repair, restoration or replacement is indicated.

In addition to the above assessment terminology, we will add narrative observations about problems observed, recommended maintenance or corrective work that should be undertaken at this time or in the near future. Visual information on components is provided in a Companion Folder to this report. It contains photos and/or video documentation of our field observations.

COMPONENT USEFUL LIFE

Several columns in the Schedule of Components provide a picture of the component useful life, including:

Start Year: This column identifies either the factual year or our estimate of the year that each component was placed in service (built, installed, replaced, etc.).

Expected Useful Life: This is the expected working life of the component in years. The expected useful life is based on the actuarial or industry standard life, combined with our observation of the condition and use of the component in this setting. Our EUL for a component in one setting may be different for the same or similar component in another setting.



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Expected Replacement Year: This number is computed by adding the expected useful life to the Start Year.

Remaining Useful Life: This number is computed by subtracting the Study Year from the Expected Replacement Year.

In some cases where a community is still under development many components have been little used at the time of this study and thus could be in nearly new condition in spite of the age of the component. This might include interior finishes, fixtures, furniture and some appliances. Refrigerators, ice makers, water heaters and HVAC equipment that must run continuously would not necessarily be included in this group. The useful life of most of the exterior components is affected by weather and forces of nature rather than actual use. Examples of this would be roofing, siding, etc. However, the useful life of such items as asphalt pavement is affected by weather, forces of nature and usage. These conditions can be dealt with by assigning later in-service dates for those components that have been little used, have not been in operation and have not been subjected to weather and forces of nature.

Another significantly important factor in the useful life of a component is the routine maintenance and care for that component. An Association's willingness to care for and maintain the components that can be cared for and maintained will contribute to a significant increase in the useful life of a component. Of course some components simply offer little opportunity for any special care or maintenance.

Finally, the useful life of a component is often dependent upon the aesthetic value that an Association places on a component. An Association might feel that worn or damaged components that are still functional should not be replaced. In some cases, Associations will simply decide to abandon, demolish or remove a component from use.

COMPONENT QUANTITIES AND MEASUREMENT

Two columns in the Schedule of Components provide information on the quantity or measurement of each component. These are:

Estimated Quantity: This is the amount, size, number or extent of each component based on a unit of measure.

Unit: The units of measure used in this report are typically as follows:

- cy = Cubic Yard
- ea = Each
- lf = Linear Foot
- ls = Lump Sum
- sf = Square Feet
- sq = Square (100 square feet)
- sy = Square Yard
- zone = Irrigation Zone

Depending on the level of study as defined by the Community Association Institute National Standards and set forth in the Agreement, a site visit and visual assessment of the components may or may not have been required. If a site visit was included the components are documented with a photo of the component or of a typical component or group of components where there are a large number of repetitive component elements. Quantities for each component were developed by on-site measurements, measurements of scaled engineering and architectural drawings when available, measurements of scaled photos or measurements of satellite mapping. In the case of on-site measurements of building envelope components (i.e. roofs, siding, trim, doors, windows, gutters, etc.) quantities were arrived at by measuring a single model or a single unit of similar character and multiplying those quantities by the number of similar units. This methodology has resulted in very accurate results as far as quantities are concerned for the reserve study budgeting.

If this study is an update of a previous study performed by DMA or another consultant, the quantities used are as determined in that study, unless otherwise noted. In many cases where a recent



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historic estimate or bid exists the bid amount is used as a “lump sum” in lieu of a unit quantity estimate.

REPLACEMENT COST

Three columns in the Schedule of Components define the expected replacement cost of each component:

Unit Cost: This is our estimate of the replacement cost per unit of each component.

Percent Replaced: Some components will require partial replacement over time, but will never require 100% replacement at the same time. To take this into account, we include a column in the schedule which adjusts the replacement cost by the percentage expected to be replaced.

Replacement Cost Per Occurrence: This number is derived from multiplying the estimated quantity multiplied by the unit cost multiplied by the percent replaced. At the bottom of the schedule the replacement costs per occurrence for all of the components are totaled.

DMA uses three sources of costing for components in our studies. Our standard source for computing component replacement costs is from “*Building Construction Cost Data*” and “*Facility Maintenance and Repair Cost Data*”, both published by R. S. Means Company, a division of Reed Construction Data. These are updated annually and indexed (weighted) by geographic area.

Our second source is actual recent replacement costs for specific components provided by the association from your General Ledger or from actual contracts or invoices.

Our third source is from local contractors and suppliers, and from manufacturers of specific products.

EXCLUDED COMPONENTS

Some improvements and assets related to the common areas are not included as capital replacement components. Components that you do not see in this report are generally related to one of the categories below or are not owned by the association:

Permanent Improvements

This group includes components that if properly maintained will have a useful life equal to the property as a whole. The end of the useful life of the property would occur when it would be necessary that all of the infrastructure would need to be demolished and cleared or the area and infrastructure completely evacuated and reconditioned to return the property to a safe and useful state.

Masonry, Stone, Concrete

Generally, masonry, stone and concrete building cladding and flatwork would be considered to have an unlimited useful life. However, repairs such as mortar tuck pointing, patching and replacing sections of broken or damaged masonry, stone and concrete is a reality and a component line item for this is often included in the reserve funding study.

Unit or Home Owner Modifications

On occasion unit or home owners will modify components that are considered common elements and the responsibility of the Association. These cost of these modifications should not be included as part of the capital reserves.

Incidental or Maintenance Items

Some components are small enough, or may require repair or replacement on a recurring short-term basis, that the association may elect to fund these entirely from the operating account as annual maintenance items.



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Tax Exclusions, Minor Items and Capital Improvements

The interest earned on the account balance containing savings for certain components may not qualify for tax exemption under IRS rulings for Associations filing Form 1120 or 1120H. It is incumbent upon the Association to determine the tax implications of comingling exempt capital expenditure funds from excluded or nonexempt designated funds in their bank and investment accounts.

State statutory requirements may prohibit comingling of funds set aside for some items. The Association should consult their attorney or accountant on this matter.

Some of these items include:

- Painting, wall coverings and other cosmetic work.
- Landscape Improvements and replacement of any landscaping (trees, shrubbery, etc.).
- Irrigation systems generally need continual maintenance. Broken heads and pipes, and damaged controller systems need to be replaced immediately upon failure. Replacement costs are generally below the threshold for reserve funding, and longevity of system components varies widely. We generally recommend that this system be handled within your annual operating and maintenance budget. However, we believe that the irrigation well pump systems and irrigation controllers should be included as capital reserve components.
- Asphalt pavement seal coating, painting, wall coverings and other activities that might be considered cosmetic work.
- Cleaning and power washing activities.
- Minor or low value exclusions. Generally, in the past, Associations have excluded component repairs or replacements with a value of less than a \$1,000 and less than a 3 year life cycle. This has been done as a matter of convenience and ease of administration of the reserve fund.
- Capital improvements would include development or purchase of a new component to be placed in service for the first time. After the component has been placed in service

the money set aside for repair and replacement can then be included in the capital reserve component funding program accounts.

If you have additional questions about DMA reserve studies, please contact us at our office at 804-644-6404 or by e-mail at admin@dma-va.com.