

***FY 2011
REPAIR AND REPLACEMENT
RESERVE STUDY***

for

**Meadows @ Morris Farm
South Association**

Gainsville, Virginia



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Executive Summary

This is a Level I Full Study (with on-site visit) as defined by CAI's National Reserve Study Standards. The site visits were performed on August 11 & 13, 2010.

The Meadows @ Morris Farm South Association is a developing sub association to the Meadows @ Morris Farm Community Association that consists of Single Family, Town Home, Carriage Homes and Duplex units, with private streets/alleys serving the Town Home, Carriage Homes and Duplex units.

The association's FY begins November 1st.

The association is projected to have about \$73,000 in reserves at the start of its fiscal year. The reserve calculations were made using that amount.

Our analysis indicates:

- We recommend the annual reserve contribution be reduced to \$15,500 in FY11.
- This decrease in reserve contribution is due to the excessive funds that currently exist in the reserves. Based on our anticipated future expenses on the property, the reserve account is currently over 350% funded.
- This annual contribution level should provide adequate funding to take care of both near term as well as out-year requirements of the components that currently exist on the property.

There are two methods of determining the required Reserve Contribution: The **Cash Flow Method** and the **Component Method**.

The **Component Method** develops the Reserve Funding Plan based on the sum of contributions for individual components. This method of funding usually results in relatively high annual contributions and fund balances.

This study was calculated using the **Cash Flow** method - This method develops a reserve funding plan where annual contributions to the reserves are designed to offset the variable annual expenditures from the reserves. Different reserve funding plans are tested against the anticipated schedule of reserve expenses until the desired funding goal is achieved.

The funding goal used in this study is: **Threshold Funding** – this method is designed to keep the reserve balance above a specific dollar amount or percent funded amount. In this reserve study the threshold is set to keep the reserve balance above 10% of the total reserves. Although this low period does not show on the 20 Year Cash Flow Chart it is projected to occur in FY36.

All costs in this study are expressed in constant dollars.

Introduction

The purpose of this study is to design a ***Table of Repair/Replacement Reserves*** for the common and limited common elements of the property to establish an annual reserve contribution to fund predictable future expenditures for the repair and replacement of these property components. Our goal when designing this study is to ensure that the association is always financially prepared to do what ever is needed in maintaining the property components.

Typically associations fund capital repairs and replacements in one of three ways:

- 1) Special assessments collected from the owners when major work is needed.
- 2) Acquiring a loan using borrowed capital for major repair and replacement projects.
- 3) A level monthly reserve contribution to fund expected future repair and replacement projects.

Our goal is to establish a reasonable reserve contribution that would avoid the need for special assessments and acquiring loans. This will also ensure that every owner pays their fair share for the time that they own their property. Loans and special assessments only penalize the owners that are present at the time the work is needed.

Example:

If a component has a replacement cost of \$1,000 and an average useful life of 10 years, by straight calculations a contribution of \$100 per year should be made to the reserves.

If the contribution level is suppressed and only \$50 per year is contributed to the reserves, the result would be a \$500 short fall. Additionally if one owner owns his or her property for the first 8 years and then sells their unit, that owner should have paid their share of \$800, but at the suppressed contribution level they only paid their share of \$400. In the 10th year when the component is due for replacement the new owner has to pay their share of the \$200 for the two years that they owned as well as the share of the previous owners \$400 short fall.

It is important to note that a reserve study is a valuable budget management tool not a work plan. The useful life of each component is based on averages. The remaining useful life, which is based on the age of the component and its existing condition, is the point at which the association should be financially prepared to replace/repair that component. This does not suggest that if the component has reached its average useful life that the component should be repaired/replaced if it is not failing.

In developing the table we consider items that have a predictable life cycle as well as those that will most likely need annual repairs to extend the useful life of the component.

Although we use generally accepted techniques and the best information available, it is possible actual costs and useful life can vary from our estimates.

Current cost estimates are based on similar work recently performed on other local properties, estimating publications and software, information provided by local contractors and other reliable sources.

This study does not consider correcting hazardous or defective conditions associated with asbestos, radon, lead, mold, etc. unless otherwise noted in this report

Different Levels of Work

There are three levels of work necessary to properly care for equipment and property components.

- 1) Maintenance – typically this is the least expensive and most important task that is performed on property components. Good maintenance extends the useful life of property components and keeps them in good working order.
- 2) Repair - replacing a portion of an item to keep the component as a whole in good working order. Repair is usually more expensive than maintenance but less expensive than total replacement. If repairs are excessively expensive a cost analysis should be performed to determine if replacement of the item is more economical.
- 3) Replacement - involves the entire replacement of the component.

DEFINITION OF ABBREVIATIONS

AN – An annual allowance for components without a predictable useful life.

AOH – Reserve fund Amount-On-hand at the start of the fiscal year.

EA - Each

CY - Cubic Yards

LF - Linear Feet

LS - Lump Sum

HP - Horsepower

SF - Square Feet

SY - Square Yards

TN - Tons

Definition of Terms

These definitions pertain to the categories shown in the Repair & Replacement Reserves Tables and Chart.

Property Component - The components on the property we believe the community should include in the reserves. If we have omitted or added any items that are not common or limited common area responsibility, please inform us so we can provide a revised table

Quantity – The approximate quantity and unit of measure of each component.

Average Useful Life – The average of how long a component should be expected to last before replacement is needed. Leading publications on useful life data, information from local contractors, our own experiences and historical trends are used to determine the average useful life.

Remaining Useful Life – The time remaining before we believe the associations should be financially prepared to replace a component. This is determined by the age and existing condition of the component. Providing good maintenance to a component can extend the remaining useful life beyond the average useful life of the component.

Replacement Cost – The amount we believe the association should set aside in today's dollars for the replacement of each component. These are budget numbers and could vary from actual bids to do the work. This assumes the association will competitively seek bids and obtain a fair price in today's market.

Recommended Contribution - The contribution needed to achieve the funding goal of this study.

Projected Annual Expenses – A table of expected expenditure for each component and the annual expenses from the reserves over the life of the study.

20 Year Cash Flow Chart – A chart showing the anticipated annual reserve balance based on the projected annual expenses and the recommended reserve contributions over the life of the study.

Components Description

Since the community components are relatively new or have yet to be installed, the remaining useful life of each component is strictly based on the age of each component.

Please note that most of the common area components within the South community are currently funded through the master association's reserves.

Pavements & Drive Lanes

Town Home Pavements

Pavement Overlay – the final top coating of these pavements have been installed and we show when we feel the association should be financially prepared to overlay the pavements surfaces.

Alley & Pipe Stem Pavements

Pavement Overlay – at the time of our inspection these paved areas had not received their final top coat of pavement. We have made the assumption that this work will be performed in 2010; therefore we show these pavements to be new at the start of FY11 and when we feel the association should be financially prepared to overlay these surfaces.

Crack Fill/Base Repair Allowances - this is an average annual amount to fill any cracks or basefail areas that may occur to prevent water penetration into the pavement sub base that can cause additional damage to the pavement through freeze/thaw cycles. We always recommend that open cracks be filled annual if needed and as they occur. Please note that we do not expect this type of work will be needed in the first year. We also recognize that these types of expenditures will vary from year to year; therefore these average annual allowances of \$250 & \$250 should also be viewed as an allowance to spend \$5,000 over a ten year period.

Appendix

REPAIR AND REPLACEMENT RESERVE CALCULATIONS

PROPERTY COMPONENTS	QUANTITY SIZE	UNITS	USEFUL LIFE (YRS.)		REPLACEMENT COST	RECOMMENDED CONTRIBUTION	CONTRIBUTION TOTALS
			AVERAGE	REMAINING			
PAVEMENTS & DRIVE LANES							
TOWN HOME PAVEMENTS							
PAVEMENT OVERLAY	11,003	SY	13	10	132,040	9,710	
CRACK FILL/BASE REPAIR ALLOW.		AN	1	1	250	100	
TOTAL TOWN HOME PAVEMENTS							\$9,810
ALLEY PAVEMENTS							
PAVEMENT OVERLAY	6,818	SY	13	12	81,820	5,090	
CRACK FILL/BASE REPAIR ALLOW.		AN	1	1	250	100	
TOTAL ALLEY PAVEMENTS							\$5,190
PIPE STEM ON BARN OWL CT.							
PAVEMENT OVERLAY	670	SY	13	12	8,040	500	
TOTAL PIPE STEMS							\$500
RESERVES TOTALS					\$222,400	\$15,500	

PROJECTED ANNUAL EXPENSES

FISCAL YEAR	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
PAVEMENTS & DRIVE LANES																				
TOWN HOME PAVEMENTS																				
PAVEMENT OVERLAY	0	0	0	0	0	0	0	0	0	0	132,040	0	0	0	0	0	0	0	0	0
CRACK FILL/BASE REPAIR ALLOW.	0	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
ALLEY PAVEMENTS																				
PAVEMENT OVERLAY	0	0	0	0	0	0	0	0	0	0	0	0	81,820	0	0	0	0	0	0	0
CRACK FILL/BASE REPAIR ALLOW.	0	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
PIPE STEM ON BARN OWL CT.																				
PAVEMENT OVERLAY	0	0	0	0	0	0	0	0	0	0	0	0	8,040	0	0	0	0	0	0	0
Totals	\$0	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$132,540	\$500	\$90,360	\$500	\$500	\$500	\$500	\$500	\$500	\$500

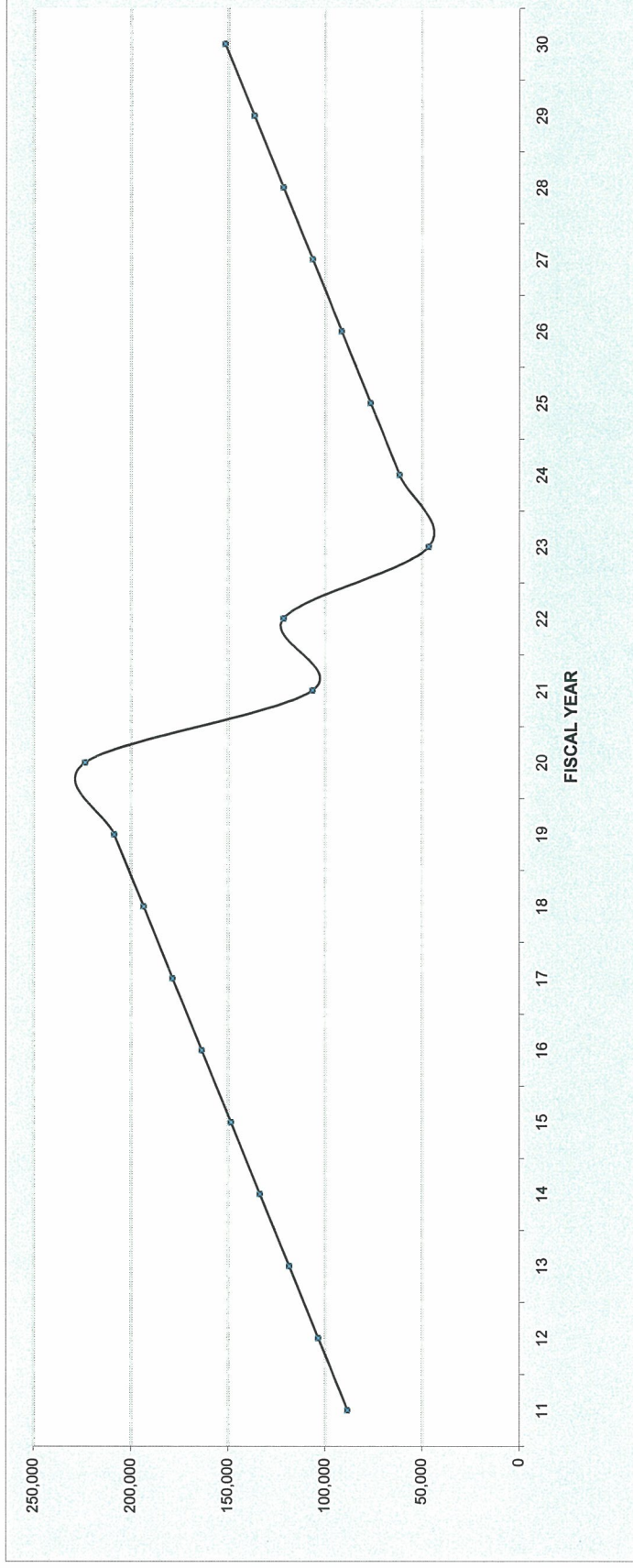
20 YEAR CASH FLOW CHART

BEGINNING BALANCE
PERCENT FUNDED

INTEREST
INFLATION

0.0%
0.0%

\$73,000
351%



FISCAL YEAR	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
ANNUAL EXPENSE	0	500	500	500	500	500	500	500	500	500	132,540	500	90,360	500	500	500	500	500	500	500
CONTRIBUTION	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500	15,500
YEAR END BALANCE	88,500	103,500	118,500	133,500	148,500	163,500	178,500	193,500	208,500	223,500	106,500	121,500	46,600	61,600	76,600	91,600	106,600	121,600	136,600	151,600

PHOTOGRAHS



A "One Way" sign has been knocked down in the carriage home alley.



The sign is missing from the post at the alley entrance on Woodpecker Court.



2 signs are missing from the posts in the alleys on the north side of Broadwinged Drive.
The replacement of all of these signs would be funded through the master association's reserves.