

Heritage Place HOA Asset Planning;
“Age Life” vs “Partial Asset Replacement Preventative
Maintenance” (PARPM) Methods; and
Review of the Three Professional Reserve Reports Obtained
by HP HOA 2005, March 2009, and August 2009

Treasurer’s Report
December 2009

HOA reserve analyses are needed to maintain a suburb’s asset functionality and values. The process should be no different than for any business but the process has evolved differently for HOA’s. The process starts with itemizing the assets and their condition. Association Reserves, Inc. (offices Phoenix, San Fran, Denver, Honolulu, Las Vegas, Seattle), Foundation for Community Association Research staffers, California state statutes, Uniform Standards of Professional Appraisal Practice (USPAP) and others were reviewed and interviews conducted about “Best and Likely Practices” by HOA’s doing HOA Reserve Reports.

The standard reserve analysis methodology (Age Life Methodology) is predicated on the not unreasonable assumption that a HOA only fixes an asset when it’s broken and does no preventative maintenance. Therefore it is reasonable to assume an asset will wear out and must be replaced 100% at the end of its “life”. This standard approach below is only 1 of 2 approaches.

- 1) Identify an asset’s likely life in years
(reference an industry manual not specific to asset, location, or condition)
- 2) Identify an asset’s likely value in dollars assuming 100% replacement
(reference an industry manual not specific to asset, location or condition)
- 3) Assign a remaining life in years based on a superficial visual examination or conclusions as directed by the client. (The former is insufficient-the latter is unethical.)
- 4) Calculate a dollar value for an asset that needs to be in the HOA’s reserve account. The formula is simple as given as an “Age Life Method” formula: $\text{Asset Life Yrs} - \text{Remaining Life Years} \div \text{Asset Life Years} \times 100\% \text{ Replacement Value}$.

For example, a 10 year asset after 6 years would have “4” years of life left until “failure” and replacement. This approach must assume nominal or no maintenance practices which is normal

and, from interviews, assumed by most reserve analysts. Then after 10 years, the project must “fail” and must be replaced 100%. After 6 years, the reserve fund needs 60% of the value of the asset in the reserve fund. After 10 years, the reserve fund needs 100% of the value of the asset in the reserve fund. It’s that simple. Few, if any, viable businesses could operate in this manner. Assets use by a business require that an asset be available each and every year for greater than 90% of the time. The only alternative to no maintenance and waiting for failure is to conduct preventative maintenance, as herein defined, is to do partial asset replacement each year.

The difference between the “Age Life” method and the “Partial Asset Replacement Preventative Maintenance” (PARPM) method is dramatic. If you do nothing but “fix it when it’s broken” the asset looks bad and when the life of the asset is reached, of course one has to replace it. The real business world doesn’t work this way. While repairs are often made to just “fix things” or to “replace rotten things” (like fences), repairs can be more or less extensive. Therefore the life of a fence or something similar is adjusted based on the level of maintenance. **Conclusion: A 20 year life could need 100% replacement in 12 years or last for 100 years.**

Past HP HOA budgets indicate that nearly no dollars were spent on maintenance, partial asset replacement, or preventative maintenance. There has been no apparent attention paid to a good list of HP assets. Further, there is no real analysis of any HP asset’s condition. The past methods used (most likely inadvertently) in HP HOA board asset reports is limited at best to the simplistic “Age Life” method.

The HP “Age Life” based reserve reports are flawed in two regards. First, 100% replacement rarely occurs – ask an insurance company. The purpose of “Partial Asset Replacement and Preventative Maintenance” (PARPM) is not to guard against a catastrophe such as an earthquake. If an earthquake is a concern, then suitable insurance should be purchased. However, insurance claims are a good example of the “replacement value” of an asset. Rarely do insurance companies replace 100% of the entire asset. Instead, they award a replacement value based on that portion of the asset that is damaged to bring it back to its original condition and functionality – a lesson to consider.

Second, PARPM (“Partial Asset Replacement Preventative Maintenance”) is rarely practiced by HOA’s. PARPM means that a part of an asset is fixed and another part is also partially replaced before it is broken. This is done on an on going (not all at once) basis. This means that the Caley Fence 8x8 post broken by an automobile accident should have been reported to the insurance company. We would receive cash less a deductible to repair the fence but at the same time we would replace adjoining wood that might be suspect but not broken, re-stain the fence area, cut away any trees/bushes and level the ground cover rocks. That’s PARPM and not “Age Life” maintenance. PARPM does all this and “extra” maintenance annually to all assets – no exceptions. Such an approach has no credibility with HOA reserve analysts because no one can demonstrate that they’ve ever done PARPM in the past – HP included. This comment is not meant to be as critical as it probably sounds but to emphasize that we have choices, primarily because our assets are not as deteriorated as previously described.

As a partial example of likely discrepancies involving these issues, consider the March and August 2009 reserve reports done for HP. These reports highlight the difference between PARPM versus “Age Life” methodologies. These reports demonstrate that value conclusions

and reserve bank account conclusions can vary by 400% when done on the same assets in the same year by the same person. One can expect 10-20% differences but not 400%. Both reports were done by the same author but under different directions and different assumptions. The March 2009 HP report incorporated more maintenance assumptions while the August 2009 HP report had more asset replacements based on some book definition of value and some unsubstantiated asset condition.

Heritage Place Two 2009 Reserve Analyses

	<u>March</u>	<u>August</u>
Asset “Value”	\$344,993	\$1,152,081
Proposed Reserve Bank Account	\$223,791	\$987,070

All assets wear out. Eventually the 2000 year old remaining cemented concrete Roman aqueducts throughout Europe will fail. The planning art for a HOA board to maintain good looking functional assets at a low cost is to focus on when and how assets wear out based upon their approach to maintenance. 35 year old assets can last “78” years with PARPM or 15 years with “Age Life” maintenance practices. This concept is more apparent in the eastern US where most real property is still standing, used, and maintained after 150-200 years.

The “Standard” HOA Reserve Approach (“Age Life”) appears to be:

- 1) When an asset is broken, fix it
- 2) No preventative maintenance
- 3) Reserve analysis done irregularly
 - a) Calculate dollar reserves only based on industry averages (lump sums or \$/unit times a HOA’s units like linear feet of fence) and/or as directed by HOA without regard to specific location, asset condition, or maintenance practices.
- 4) Reserve funding based on “Age Life” method, if lucky, is 30-50% of the reserves needed
- 5) No plan or adequate financial records

If an asset “fails”, it’s only when annual maintenance cost is so high that replacement is a better economic alternative. A “35” year old asset that is 34 years old does not “fail” on January 1 of the year when the asset is 35 years old. Typically, annual maintenance costs are an indicator of when a failure is likely and when assets might need to be replaced or significantly upgraded. The method to determine maintenance versus replaced/upgrade is simple and is based on projected cash flows for 5-10 years. The annual estimated cost to continue the high maintenance of an asset each year is contrasted with the very large upfront replacement costs and supposedly lower maintenance annual cost for the next 5-10 years. These two cash flows are discounted at an identical interest rate to get present day dollars. The lower value indicates the appropriate decision.

The above analysis requires maintenance records from a HOA’s past expenditures. HP does not have them. The chart of accounts by which we categorize our expenditures was not completely designed to track such costs and includes non-cash accounting related costs. The HP chart of accounts and the accrual accounting approaches were changed in October 2009 to facilitate

tracking annual maintenance costs without non-cash accounting costs. The chart of accounts should always be re-considered and modified for better cost knowledge. It can always be improved.

Consider feedback from sprinkler contractors regarding sprinkler maintenance. When our underground pipe maintenance costs reaches \$15,000-\$25,000 per year for our 11.25 acres, 464 head, 11 controller system, then we will know we might have an underground pipe maintenance problem. Our accounting system now (starting 1/1/2010) tracks UNDERGROUND pipe maintenance costs as well as SURFACE costs for controllers/clocks and nozzles/heads on a CASH basis to help us know when we have an underground pipe maintenance cost problem. This was never done before. There are sprinkler systems with poly pipe and bad joints 50 years old many places in many HOA's that are repaired regularly with no high total underground pipe maintenance costs. When one of our old cottonwood trees pinches a pipe or breaks a pipe joint, standard maintenance practice is to cut the pipe on either side of the tree and run a new pipe around the tree connecting to the ends of the cut pipe and not to replace the entire sprinkler system. When our underground maintenance costs reach \$15,000-\$25,000/year, we may or may not have a problem. Current records indicate that our total (not pipe) maintenance costs is only \$6,000-\$7,000/yr and that years when the costs were higher were due to preventative maintenance such as in 2007 (\$15,000) when we standardized a lot of our sprinkler heads and NOT due to underground pipe breaks or pipe age. Typical HOA sprinkler total maintenance in even new systems is estimated at \$500/month or \$6,000/yr based on 3 contractor interviews.

Can we approach our asset maintenance in a way that we can have them always looking good, not in dis-repair, and only require a "reasonable" sum of money in our reserve cash bank account? **YES**

First, recognize that if an asset catastrophe issue needs to be considered, then buy appropriate insurance and put the premium towards the operating budget and the deductible to the reserve account. Insurance policies address catastrophic losses -- not the HOA cash reserve account.

Second, recognize that specific asset life spans at a specific location are based on past and future maintenance practices and are not dictated by an industry manual or a HOA's desires. (Even HP's 3 reserve reports emphasize these same opinions in the report text from the report's author.) HP's sprinkler system may be 35 years old but unless proper maintenance cost records are kept (and they have not been kept), a conclusion to replace 100% of the entire system is probably not imminent, likely, or even feasible. Indeed such a conclusion is more unrealistic based on common operating practices and experiences where work is often done on 50 year old sprinkler systems with old trees with systems built with poly pipe. It could be possible for a section of our sprinkler system to need replacement but that is also unknown now or from any past analysis.

The above point is that the approach of determining 100% of the replacement of an asset is of limited use if any, unless a HOA's asset plan is for total deterioration/neglect and therefore total replacement. Just as the latter is one option, so is "partial asset replacement preventative maintenance" (PARPM) which could mean that an asset essentially never needs replacement as it is replaced fractionally every year. It is critical to know what PARPM is and costs else it can also fail. Proper planning and expenditures are needed and 5-10 year annual plans are needed to be done by the board (not a 3rd party) so that the content is understood because the board must

actively manage such maintenance practices if the benefits of longer asset lives are to be derived. (My personal opinion is that this work should not be delegated to a management company. Use our management company for record keeping, ideas, data, contacts, etc. and do the analysis ourselves which is no more difficult than balancing a check book and should be a required responsibility of a board member-my opinion. A trustee approach to having continuity between boards over many years has been proposed and will be discussed later.)

There are 2 key elements to a methodical business approach to HOA asset management. First, do PARPM making each asset look “good” (and obviously functional) every year. For example, don’t wait for our light fixtures in the greenbelt to rust and fall over, grind the rust off, prime and paint and do this as needed every year. Since the lamp post steel is not needed for significant structural strength, good maintenance could extend the lamp post lives much longer than current practice. If indeed some lamp posts are deteriorated beyond repair, then replace them gradually over time like we have done with fiberglass substitutes. Such planned maintenance and “phased in” replacement, if needed, is well within the financial reach of any HOA such as HP.

The analysis presented here indicates two choices for HP’s homeowners. One, we can manage the next few years with the dues as using PARPM. Two, we can continue using the “Age Life” method and obtain significantly more money via higher dues and extra assessments. Since most of the assets such as the dry lay walls or fences were not changed for many years, it seems acceptable to put a 2-5 year plan together based on the existing and not newly designed assets. For example, we’ll keep our wood fences and rebuild them and not consider tearing the wood fences down and replace them with much more expensive steel and/or stucco fences.

CONCLUSIONS

This discussion starts to demonstrate the amount of dollars that HP HOA needs in a reserve account to maintain its assets. For example, once the final sprinkler system upgrade is costed and bids obtained and the work done, we will know what a major upgrade costs. This latter amount for a sprinkler upgrade is likely to be \$20,000-\$30,000 and not \$200,000 (HP board letter July 2009) or \$700,000 (HP August 2009 Reserve Report). As we can afford to do this sprinkler upgrade in 2010 with generous rebates for equipment and water saved from the new Denver Water contract signed December 2009, the full amount is not needed in the reserve account for a number of years. If we can show an increasing reserve account balance each year, we can work our way up to the amount needed to do a similar sprinkler replacement in another 10 years instead of using the “Age Life” method replacing the asset in some presumed book value years.

There are two critical assumptions to manage assets.

- 1) Have a detailed appraisal of the existing assets. Heritage Place has no such appraisal of its assets in any form except an overly simplified version from the reserve reports listing the asset with some hypothetical life and remaining life of the asset.
- 2) There is an asset management plan. HP has had no “Partial Asset Replacement Preventative Maintenance” plan (PARPM) ever.

Preventative maintenance is a critical item typically ignored because most HOA’s lack the initiative or ability to understand it. Most HOA’s do minimum maintenance fixing broken assets

when they're broken and, at some point, completely replacing an asset when it fails. However, the impact of PARPM is dramatic.

For example, a 10 year asset after 6 years could have 0 – 3 years left if maintenance practices are poor and 5 or more years if maintenance practices are good and 15 and longer life if PARPM is properly practiced. HP asset reports simply take the difference of 10 minus 6 and say 4 years are left and therefore we need 60% of the national (not Heritage Place) average replacement value in our reserve bank account. This seems like poor management practice.

This relationship is never noted in standard reserve reports and is the reason for “the sky is falling” conclusions from nearly all reserve reports including HP’s reports, most of which, unfortunately, deserve this conclusion. Nevertheless, one should not minimize the dangers of giving “lip service” to PARPM as opposed to actually spending the money to complete PARPM. Anything less than the latter strategy will require a HOA to consider using the standard approach “Age Life” approach to reserve calculations as done in our past reports—however silly or unsubstantiated.

The Heritage Place board is refining its understanding of asset replacement costs, scheduling, and the impact on our future five year cash flows. Yes, total failure of all assets would require an immediate assessment from the HOA. However, the probability of such a total failure is so low as to be unknown and we are increasing HP’s insurance policy coverage to cover such probabilities. Close examination of our Heritage Place assets by board members and 3rd party auditors and contractors indicates that our assets are still in reasonable condition. They can be updated over a 2-4 year period to be aesthetically appealing, reliable in performance, and have an indefinite life with the PARPM program.

HP’s current plan involves spending \$220,000 over a 5 year period or about \$54,000/yr. Can we afford to do these improvements from our existing dues structure and pay all of our operating expenses? Yes. If reserve asset updates are done over 3-5 years using current dues, dues increases, and savings from reduced operating costs, the work is expected to be completed with over \$150,000 remaining in reserves after 5 years. Thereafter, reserves would increase while also spending more each year on PARPM. Some of the proposed asset improvements will reduce operating expenses but we will also spend more on Partial Asset Replacement Preventative Maintenance (PARPM) in the future.

APPENDIX A

PAST HERITAGE PLACE ASSET RESERVE ANALYSES

HP's past three reserve reports were analyzed and summarized to start this work and are summarized in this Appendix A. This work led to research and interviews as discussed in the above report and to the recommended PARPM program practices. The accompanying schedules demonstrate why the past reserve reports and requested capital in July 2009 using the "Age Life" method are not reliable planning tools.

HP HOA Asset Methodology Analysis- Not For Distribution outside HP

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	Reserve Reports Different Bank Cash Reserve Estimates												
2													
3		Bradley	Yrs		Bradley	Yrs		HP Board	Yrs	Bradley	Yrs	Treasurer Proposal Winter 2009	
4	Asset	2005	Left	March 17, 2009	Left	July 22, 2009	Left	August 3, 2009	Left	2010	Upgrade 2010-2015/annual PARPM		
5													
6	Sprinkler	\$382,200	9	\$5,000	4	\$200,000		\$705,672	3	\$19,948	\$3,000		
7													
8	Concrete Sidewalks/Drains	\$6,000	4	\$3,000	9	\$170,000 - \$200,000		\$6,000	8	\$22,500	\$5,625		
9													
10	FENCES												
11	Caley Ave	\$28,400	15	\$182,257	2	\$110,000 - \$150,000		\$174,332	3	\$31,582	\$4,000		
12	Arapahoe Road	\$11,200	15	\$17,784	10	\$0		\$33,516	4	\$14,513	\$4,000		
13	Stain Arapahoe/Caley	\$0	5	\$1,584	4	\$0		\$1,584		\$0	\$0		
14	Quebec Street	\$0	5	\$2,066	4	\$0		\$2,066	4	\$4,000	\$3,500		
15													
16	Rock Walls	\$2,400	6	\$1,000	9	\$50,000 - \$75,000		\$52,800	3	\$42,501	\$6,072		
17													
18	Signage	\$1,500	15	\$1,500	15	\$0		\$1,500	15	\$500	\$500		
19													
20	Lighting	\$4,000	5	\$1,600	8	\$0		\$1,600	8	\$3,500	\$1,000		
21													
22	Landscape and Trees	\$0	5	\$8,000	3	\$0		\$8,000	3.0	\$2,000	\$2,000		
23													
24	GROSS TOTAL	\$435,700	9.4	\$223,791	3.0	\$525,000 - \$630,000		\$987,070	3.1	N/A	N/A		
25										\$141,044	\$29,697		
26													
27										Total Reserve 2010-2015		\$219,023	
28										Cash Year End 2015		\$169,878	
29													
30	Notes									Recommended Cash Position			
31	Sprinkler backflow installed \$6,000									Minimum 1 year's revenue	\$164,674		
32										Maximum as a "plug" number	\$250,000		
33										Revise min/max as needed. If and as maximum exceeded, spend it.			

Reserve Reports Different Bank Cash Reserve Estimates

- 1) In 2009 total reserve bank account needs varied from the professional reserve report in March at \$223,791 to the Board's recommendation of \$525,000-\$630,000 in July to another professional report in August of \$987,070.
- 2) The significant differences included
 - a. Replacing the Caley Fence new instead of upgrading to new condition: \$174,332 vs \$32,000 August vs March 2009 respectively.
 - b. Rebuilding the sprinkler system 100% instead of upgrading: \$705,672 (August 2009) vs \$5,000 (March 2009)
 - i. \$5,000 is not defined and is perhaps why the board thought it was too low.
 - ii. Updates can be done for any cost but meaningful updates to reduce water consumption costs and decrease mowing costs would take >\$20,000 (estimate nearly finished & 3rd party audit completed by Denver Water)
 - c. Grouting rock walls instead of simply maintaining: \$52,800 (August 2009) vs \$1,000 (March 2009) while the answer is probably somewhere in between.
- 3) Arapahoe Fence is noted in the August 2009 Report but ignored in the board's July 2009 letter and the March 2009 Report
- 4) Signs, lighting, and island landscape are ignored in the July Board's Report but included in HP's three other reserve reports.
- 5) There are major differences in HP's past Reserve Reports and the Boards conclusions regarding the greenbelt flood water drain-pans. The professional March 2009 analysis showed \$3,000 compared to the Board's July requested \$170,000-\$200,000. Note that the professional conclusion for the \$3,000 estimate was done after the 2008 \$85,000 expenditures on drain-pan repairs in greenbelt Area C.

	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA
1	Asset Replacement Costs: Insurance Catastrophe vs Reserve Planning													
2													Current	New
3		Bradley	Life		Bradley	Life		HP Board		Bradley	Life		Insurance	Insurance
4	Asset	2005	Yrs		March 17, 2009	Yrs		July 22, 2009		August 3, 2009	Yrs		2009	2009 ??
5														
6	Sprinkler	\$514,500	35		\$25,000	5				\$771,828	35		\$14,200	?
7														
8	Concrete Sidewalks/Drains	\$10,000	10		\$30,000	9				\$30,000	10		\$0	?
9														
10	FENCES													
11	Caley Ave	\$71,000	25		\$198,105	25				\$198,105	25		\$95,048	\$123,881
12	Arapahoe Road	\$28,000	25		\$29,640	25				\$39,900	25		\$43,552	\$56,928
13	Stain Arapahoe/Caley	\$7,326	5		\$7,920	5				\$7,920	5		\$0	\$0
14	Quebec Street	\$5,468	5		\$10,328	5				\$10,328	5		\$70,000	?
15														
16	Rock Walls	\$6,000	10		\$10,000	10				\$60,000	25		\$0	?
17														
18	Signage	\$6,000	20		\$6,000	20				\$6,000	20		\$0	?
19														
20	Lighting	\$8,000	10		\$8,000	10				\$8,000	10		\$21,000	?
21														
22	Landscape and Trees	\$20,000	5		\$20,000	5				\$20,000	5		\$0	?
23														
24	GROSS TOTAL	\$676,294	31.1		\$344,993	19.1				\$1,152,081	30.5		\$243,800	??
25														
26														
27														
28														
29														
30														
31														
32														
33														

HP HOA is probably under insured. Ted and Ernie are reviewing policies and discussing with HP agent. Insurance company will review assets and propose plan. New budget includes raising insurance premiums from about \$4,000 to \$5,000/yr. Premium payments will come from operating budget and cash policy deductible should come from reserves for any claim(s).

Asset Replacement Costs: Insurance Catastrophe vs Reserve Planning

- 1) Asset replacement costs clearly mix total asset replacement costs with asset upgrades resulting in the range of \$344,993 to \$1,152,081 between the March 2009 and August 2009 reports.
- 2) It was noted that the HP Board had input significant input in the way the third party work was done that may or may not explain the resulting differences. Records are not available to review. Desires and data from a client are fair to be considered by an appraiser, but according to the Uniform Standards of Professional Appraisal Practice, a client determining methodology or results would require the appraiser to resign from the project and or to modify the scope of work acceptable to the appraiser and to document why such changes are appropriate with justifiable references and data. Such USPAP standards do not appear to have been addressed in the HP asset reports.
- 3) We have no basis to determine our replacement costs for insurance purposes.
 - a. Insurance values come from catastrophes or accidents and not normal “wear and tear”. Normal “wear and tear” is address in the “Age Life” method and the PARTM method.
 - b. Insurance policy costs should be in operating costs.
 - c. Insurance deductibles should be in reserve bank account.

	AB	AC	AD	AE	AF	AG	AH	AI
1	"Age Life" Method used in Reserve Reports vs Proposed PARPM Method							
2								
3	Prevailing HOA Strategy: Break and Fix until failure and then replace 100% at some future point							
4	Alternative Strategy: Break and Fix in Operating Budget, Make significant Upgrades							
5	and do preventative maintenance (PARPM) in reserve account every year							
6								
7	Caley Fence example from Bradley August 2009 with typical reserve calculations							
8							Desired	
9			Unit Replace-	Est. Replace-	Est. Life	Remaining	Reserve	Reserves
10	Strategy	quantity ft	ment Cost \$/ft	ment Cost \$	Years	Years	Budget	Available
11	"No" Repairs	2,482	\$70.25	\$174,332	25	3	\$153,412	\$10,762
12	until 100%	source?	book source	calculated	book	support to		
13	replacement			2,381' x \$70.25/ft	be observation		(25-3)/25*\$198,105	\$174,332/\$987,070*\$69,247
14								
15	Totals			\$1,152,081			\$987,070	\$69,247
16								
17								
18								
19								
20								
21	Partial	2,374	\$13.30	\$31,582	10	9	\$3,158	In Reserve AND Spend
22	Replacement	measured	calculated	calculated	Constants under PRPM			every year on PARPM
23	Preventative		material/labor	Initial repair cost				
24	Maintenance		individual picket					
25			and post inspection		Constants simply represent,			
26	"PARPM"				for example, some regular			
27					remodeling of your home and			
28					constantly extending its life.			
29								
30								
31	Conclusion: PARPM demonstrates lower risk and lower reserve cash needs.							

Age Life Method used in Reserve Reports vs Partial Asset Replacement Preventative Maintenance (PARPM) Method Observations

- 1) The Heritage Place Reserve Report methodology used is appropriate when there are NO PARPM PRACTICES.
- 2) If there is any preventative maintenance, then the remaining life of an asset can be stabilized and increased depending on the amount of preventative maintenance completed. This was confirmed from interviews with 2 national reserve analysis firms and noted in California state statutes on reserve planning AND from recent continuing educational classes for Uniform Standards for Professional Appraisal Practice completed in December 2009.
- 3) The result is that properly planned asset upgrades instead of a total replacement program along with appropriate preventative maintenance can significantly reduce the reserves needed while maintaining aesthetic asset looking goals. After examining all of HP's assets and conferring with several contractors, this latter approach (PARPM) would apply to the Caley Fence, Quebec Fence, Arapahoe Fence, drain pans, sidewalks, storm water pipe drain system, sprinklers, and rock walls—all of Heritage Place's assets.

Comments Common From the Three Reports by “Bradley Property Consultants” for HP HOA Assets

All quoted phrases and sentences are taken verbatim from these three reports.

“Reflects Current Conditions on the Project”. Not evidence.

“Property was inspected.” No evidence.

2009: “The revisions and updating has brought the reserve analysis up to date with current replacement costs for the project components. The proposed maintenance expectations and comments by the management were very valuable in revising this document.” No one will or can provide the basis for “expectations” or “comments” from the board for the consultants report.

2009: “...all categories were brought up to current replacement costs in today’s dollars.”

Work Performed

Site inspections and field measurements were claimed to have been done to determine condition and value of all HP assets. An asset inventory list was prepared. There are no records available to examine to substantiate these latter claims.

Methodology

An incomplete list of assets was produced along with an overly simplistic linear relationship between some unsupported asset value and age of each asset. Inherent in this approach is no maintenance and certainly no partial asset replacement preventative maintenance (PARPM). If we change our maintenance practices (PARPM), we can change the age and life of an asset. New game.

“The actual costs for replacements may vary considerably depending on economic conditions, contract specifications, technological advances, regulatory changes, and maintenance schedules.”

Inflation was ignored due to likely offsetting investments credits and earned interest.

“The reserve analysis is a working document and should be adjusted as necessary to meet the needs and desires of the Association and reflect changing conditions.” Nice “out”. A regular analysis needs to take into account asset replacements which is what PARPM does opposed to its broken now fix it.

The report’s cost estimates “should not be used for contracting work or relied upon by any other party.” So what good are they? The HP reserve report analyses are limited to what is in the report and perhaps what can be visually seen if indeed any inspection was done. Liability for this report is limited to what was paid for the report and there is no responsibility for errors or omissions.

“Actual experience in replacing items may differ significantly from the estimates given.”
(emphasis added)

So was there any value to the reports? No

MARCH 2009 REPORT

Sprinkler

Consulted with Association sprinkler contractor.

Concluded that \$25,000 every 5 years for major sprinkler repairs and upgrades in addition to the average \$7,000 - \$10,000 historical expenditures in association records would be appropriate.

This actually appears correct from current work but was disregarded by HP.

Fences

Fence costs and lives upgraded reflect past 5 years of maintenance practices which confirmed from financial records was none.

Caley cost estimates were based on all new materials and stucco instead of repairs while the Arapahoe and Quebec fences were totally ignored.

CHANGES FROM MARCH TO AUGUST 2009 REPORTS

Supposedly, the Board of Directors told Bradley to assume the rock walls would be grouted to eliminate annual maintenance costs of these walls (no records of such maintenance can be found or made available). Bradley indicates he was told to increase the sprinkler value and expenditures and to replace and not repair the Caley Fence.

“Additional impute (input) by the board provided future replacement costs expectations and needs. The second 2009 update reflects the expected position of the Association going forward in 2009. The proposed maintenance expectations and comments by the Association were very valuable in revising this document.” These “Scope of Work” and “Conclusion” comments create an ethical conflict per USPAP standards.