

## 9. Reserve Study Policy

Heritage Place Homeowners Association has adopted a new approach to asset management called Partial Asset Replacement Preventive Maintenance (PARPM), which directly affects Reserve Study Policy.

a. Assumptions. Two critical assumptions were made in order to manage assets.

1) A detailed appraisal of existing assets. Further, such appraisal will continue to be updated on an annual basis by Board members.

2) An asset management plan. Said plan is to be actively managed, that is, said appraisal and its findings of deficiencies must be repaired and replaced as explained below as a Board responsibility.

The specific asset life spans are based on past and future maintenance practices and not dictated by an industry manual or on the Board's desires. Thus a ten year old fence with an estimated life of twenty years by the manual does not necessarily require 10/20 or 50% of its replacement cost in a reserve account

b. Partial Asset Replacement Preventive Maintenance (PARPM). The concept of PARPM is to not only do required repairs, but to go a step further and partially replace part of the asset that may have been contributory to the needed repair. When done on a consistent basis, this could mean an asset will never need total replacement as it is fractionally replaced every year. Proper planning and expenditures are needed and five to ten year plans on an annual basis are needed to be done by the Homeowners Board so that it is the Board actively managing these maintenance practices. As the purpose of reserves is to fund asset/capital improvement expenditures the maintenance practices described will be funded in part by operating funds (repairs) and also by reserves insofar as they constitute a partial asset replacement.

c. Insurance. Catastrophic loss under this plan is best served by an adequate insurance coverage (replacement cost). Premiums for the insurance policy are in the operating budget, whereas the loss deductible is part of the reserve account.

d. Reserve Study Physical/Financial Aspect. This reserve planning is more heavily predicated on full on-site inventory of assets and a determination as to the condition of the asset leading to a prediction of functional life expectancy. With the aggressive program described it is conceivable that the asset will have an indefinite life allowing a slow monetary buildup of financial assets. Thus, our policy on reserve study addresses the physical aspects more heavily.