

2006 Reserve Study

Frequently Asked Questions

What is a Reserve Study?

A Reserve Study is a state mandated review of the replacement schedule and cost of capital 'components' owned by the Association. By state law, such a study must be performed at least once every five years.

What is a capital component?

A capital component is defined as any portion of the physical infrastructure within the community that has an expected life of more than 5 years and costs more than \$1000.

Who performed the Reserve Study?

Design Management Associates (DMA) of Richmond, Virginia. Reserves Studies for Homeowners Associations and communities similar to ours is what they do every day.

How much did the Reserve Study cost?

\$1800

Was DMA our only option to perform the study?

No. Other firms could have accomplished the same study. Stellar Community Management was familiar with DMA's work and negotiated the rate and timing of the study. Given this was our first Capital Reserve Study, we felt an in depth analysis was in order. The submitted document met Board expectations.

What did the Reserve Study do for Old Hundred Mill?

Beyond compliance with state law, the Reserve Study recommended a specific schedule of funding of what will be the Reserve Account.

Must we abide by the recommendation in the Reserve Study?

The law stops short of forcing the Association from setting aside money for the future, but good business practice does not. It would be fiducial irresponsibility for the Board to not plan for the future, as well as manage the present.

Did the Reserve Study capture all of our capital components?

No. First, the Forest Mill Tot Lot equipment had been removed and not replaced prior to the site visit. With that in mind, we already know the recommended amount to fund the Reserve Account is somewhat short of reality. Second, as we

add capital components within the community, our Reserve Account need may outstrip the recommendation. Subsequent reserve studies (in the years 2011 and 2016, for example), will give us insight on how much we need to increase the annual funding.

What was the recommendation from the Reserve Study?

There were several, but primarily, the study recommended an initial deposit of \$5730.29 and annual deposit of that amount, plus 4% annually for the next 31 years.

How often will deposits be made into the Reserve Account?

Annually. At the beginning of each budget year.

What is a fully funded Reserve Account?

A balance equaling 5% of the total estimated present value of the next replacement of assets.

Will the Old Hundred Mill Reserve Account be fully funded in 2007?

No. To be considered 'fully funded' our Reserve Account balance at the end of 2006 should be over \$28,000. Our balance will be \$0.00. With a tremendous effort, it will be several years before we will be close to fully funded.

How will funds within the Reserve Account be managed?

If the Board determines that a needed expenditure is related to a capital component (upkeep or replacement on existing infrastructure), then funds from the Reserve Account will be used. At no point, will be the Reserve Account be used as a general operating account.

What amount from the 2007 budget will the OHM Board deposit into the Reserve Account?

Approximately \$3,600. The minimum recommendation from the reserve study was \$3551.47. As our assets are currently in good condition, we will defer on placing a larger amount in the fund and more aggressively fund our Reserve Account starting in 2008 (when we don't have tot lot equipment expenses to deal with).

Will the Reserve Account cause my annual assessment to increase?

While not directly as a result of the Reserve Account, the annual assessment will increase. Now that the Board has enough information and knowledge on how much to save for the future and a few years of historical experience on day to day operational costs, we can better plan. Proper management of the Reserve Account should minimize the need for future special assessments.