



Reserve Analysis • Property Inspection • Construction Consultants

September 27, 2012

Sellers Creek Ranch Homeowners Association, Inc.
C/o Pristine Communities
P.O. Box 124
Castle Rock, CO 80104

Attention: John O'Connor

Re: Reserve Analysis, 2012 VERSION

Dear Mr. O'Connor and Board of Directors:

We were authorized by the Board of Directors to conduct a reserve analysis for Sellers Creek Ranch Homeowners Association, Inc. (Association) located in Douglas County, Colorado. The reserve analysis study proceeded through September 27, 2012.

This report is the 2012 version of the reserve analysis. This reserve analysis reflects the position of the Association in 2012. The proposed maintenance expectations and comments by the management company were very valuable in estimating the overall reserve requirements for the project. The Association may want to consider adding or deleting some categories and possibly phasing more of the categories to spread the financial responsibilities over a number of years. The phasing or deletion of categories can be done as a future revision to this document.

The reserve analysis is in two parts. The first section is an explanation of terms and a description of the methods involved in arriving at the data for the project. The first section also includes the inventory list and our comments on the inventory categories. The second section starts with the reserve analysis table showing project categories and overall suggested reserve deposits. This table should be reviewed carefully and revised as necessary. The rest of the second section includes tables of reserve balances for the next 40 years, a section of graphs depicting capital expenses and reserve balances over the same 40 year period, and a table of projected capital expenses.

The work performed consisted of site inspections and field measurements to determine the condition and value of items for which this master homeowner Association is responsible for. This information was used to compile a reserve analysis inventory list. The reserve analysis estimates remaining economic life of the items in the inventory list, replacement costs, and prorates existing reserves to these items. The analysis then estimates future contributions to project reserves so adequate funds will be available for future repairs and replacements.

Reserve Analysis Summary and Explanation of Terms

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The analysis covers the common areas and items the Association is responsible for repairing and replacing. The Association has determined these items, or inventory list, by interpretation of the Declarations and Covenants for the Association and the historical maintenance schedule on the project. The inventory list should be reviewed and modified according to the actual needs of the Association.

The analysis also uses the relationship of cost replacement and remaining life to determine future reserve needs. An explanation of the terms and column headings as used within the reserve analysis follows:

COMMON AREA

The common area covers the Association's elements termed as capital reserve items. It includes the landscaping, irrigation, common area concrete, entry gates, drainage facilities, and monuments. We have attached an inventory list with our comments on the inventory items. **Please refer to the inventory list and the other sections of the report for specific comments on individual reserve analysis items.**

Some long lasting items were not included in the analysis since they should survive the assumed economic life of the project. This analysis uses a 50-year useful economic life as a basis for replacement items. Most items considered to have an expected life of 50 years or longer were not included in the replacement schedule. These items include building foundations and internal structural components. Please see any special notes within the analysis that pertain to items that will last 50 years or more. Small or low cost items under \$3,000.00 were not included since these repairs and replacements tend to be funded through the annual operating budget rather than from capital reserves.

DEFINITION OF TERMS USED IN THE RESERVE ANALYSIS TABLE

Estimated Salvage Value

"Estimated Salvage Value" specifically relates to items which, by their nature, will not need total replacement at the end of their assumed economic life. The considerations affecting salvage value are its long-lasting components or parts, maintenance schedule, recent repairs or replacements, and importance to the appearance of the project. Items that directly affect the appearance and function of the project tend to be maintained more completely and more often. Hard scape items such as concrete tend to be repaired as necessary rather than all at once. Some portions will last as long as the economic life of the project while other parts will need repairs, but not full replacement.

The "Estimated Salvage Value" identifies those items that will not need total replacement upon reaching their assumed economic life. The percentages noted on the schedule are based on our experience. They can be modified after discussions with the Board of Directors regarding areas and percentages best fitting with the overall maintenance philosophy of the project. Some items have had recent major repairs or replacements.

Replacement Costs

Replacement costs were arrived at using estimating procedures and our experience with bidding current market prices. The amounts are in current dollars and are estimates. They assume major repairs or replacements will be done all at the same time.

The actual costs for replacements may vary considerably depending on economic conditions, contract specifications, technological advances, regulatory changes, and maintenance schedules. No adjustments for inflation were made for replacement costs. Inflation values fluctuate and are not reliably defined. Over a long period of time, inflation is often offset by investment credits or interest earned. The varying rates and changes to the project can be reflected by annual updates to the reserve analysis. **We recommend annual updates to the reserve analysis to account for any substantial changes directly affecting the cost of replacements. Such changes would include insurance settlements, natural disasters, or unknown conditions requiring significant expenditures.**

Estimated Economic Life

The estimated economic life and life left are our estimates obtained from published manuals, accepted industry standards, and our experience with similar projects. The estimated life remaining for the reserve items was determined after our visual inspections and discussions with the management company. The community is 17 years old. The average age had to be interpreted for each inventory item since some items will age faster than others.

The "Desired Reserve Budget," "Reserves Available," and "Annual Deposit" are arrived at after determining the estimated replacement costs and economic life span of the reserve items.

Desired Reserve Budget

The "**Desired Reserve Budget**" is the estimated amount that would have been deposited by now if the inventory items had been included in a reserve deposit schedule from the beginning of the project. Each item's estimated replacement cost is divided by its proposed economic life and then multiplied by its age to arrive at the desired reserve budget. This is a "best case" scenario to show what would have been reserved to date for each item. These figures are used to develop a percent-

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age or proportional relationship for each item as it relates to the total "Desired Reserve Budget." The item percentage is used to distribute the present reserves and analyze future needs.

Reserves Available

The actual reserves available are distributed to each inventory item in proportion to the "Desired Reserve Budget" figures. The proportion or percentage for each item as determined by the "Desired Reserve Budget" is multiplied by the actual reserves on hand to arrive at the reserve value for each item. The reserves available at the time of this report were \$47,947.00.

Annual Deposits

The initial annual deposit for each item is equal to the difference between the estimated replacement cost and the reserves available, divided by the years of life remaining for the item. This is an estimated annual deposit for each item from this time forward. The deposits attempt to achieve a 100% funding level to the reserves in the future. See note on funding percentage below.

Average Annual Contribution

The annual deposits required over the life of the project will fluctuate as reserves are saved and spent in anticipated cycles. We have attempted to account for these cycles by calculating the average annual deposits necessary for a 40 year period. In calculating your requirements, the initial deposit brings your reserve balance closer to what it should be now and the average deposit lets the Association gauge what level savings to achieve in the future. **You must consider that these amounts are determined as the best possible condition and to achieve the best reserve balance requires some long term planning. In most cases this amount is hard to achieve, especially when the reserves are closely analyzed. Most communities are doing very well if they can achieve 70-80% of the proposed annual contributions and reserve balances. A part of the planning process may be to establish a reasonable goal and attempt to reach the best result.**

As stated previously, we recommend annual updates to the reserve analysis to account for replacements, changes in replacement costs, and changing interest rates. Interest earned will tend to offset inflation. Attempting to forecast into the future is tenuous at best. We believe it is preferable to make simple annual changes to the analysis and make decisions based on the most recent information available. **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.**

We performed this analysis at the request of the Board of Directors of Sellers Creek Ranch Homeowners Association, Inc. The report is intended for the Association's exclusive use and should not be used for contracting work or relied upon by any other party. The analysis reflects conditions within the property that could be examined visually and is limited to the extent of the report. The

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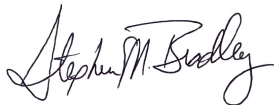
analysis is also based upon representations made by Sellers Creek Ranch Homeowners Association, Inc. in regard to existing reserve fund balances, recent replacements or repairs, and interpretation of the Declarations and Covenants for the project. While reasonable effort was made to ascertain the condition of the property and/or equipment within, it is not to be construed as a guarantee or warranty of the property or equipment therein, nor does it imply that all components will function properly on or after the date of this report. Acceptance of this report by the Association constitutes the agreement of the Association that the liability of Bradley Property Consultants, Inc. for any errors or omissions on negligent misrepresentations herein is limited to the fee paid for this report and that there shall be no liability whatsoever for incidental or consequential damages. Unless otherwise noted in the report, no sampling, testing, or dismantling of any equipment, systems or structural components of the property, other than the visual inspection, was performed. Further, no inspections or tests for soil quality or stability, asbestos, PCBs, or any other hazardous materials were undertaken nor was the quality or adequacy of the water and sewer service to the property analyzed. The inspections addressed herein were not undertaken to address any specific use or purpose contemplated by the Association other than what was stated in the report. This report does not in any way address the property's compliance with any federal, state, or local laws, rules, regulations, or ordinances.

We believe the analysis will provide a useful planning guide. Actual experience in replacing items may differ significantly from the estimates given. Again, we recommend annual updates to the analysis to reflect changes to current conditions.

If you have any questions or require further information, please contact our office at any time.

Very truly yours,

BRADLEY PROPERTY CONSULTANTS, INC.



Stephen M. Bradley, President

Enclosures and Attachments: 2012 VERSION

- Reserve Analysis Inventory List with comments
- Picture log with comments
- Replacement and Reserve Analysis Table
- Tables and Graphs of Reserve Balances Over Remaining Life of Components
- Table of Projected Capital Expenses By Year