

Reserve Study

The purpose of the reserve study is to provide a rational basis for a decision about membership rates for the replacement and maintenance of Quiet Water fixed assets and to ensure that sufficient reserve balances are maintained for future needs. It is not an exercise in financial precision the way a mortgage calculation would be where all the variables are known. Things like replacement costs and remaining useful life are estimates and actual experience is likely to vary considerably. A guiding principle has been that if we capture 85% of the actual replacement costs over the life of all the fixed assets, it is sufficiently accurate for rate setting. Given that the rate calculation is self-correcting if the numbers are revised each year, this approach has served association members quite well.

It is worth noting that built into the rate model are a couple of important assumptions. The model does not earmark dollar amounts for specific assets like carports. Not all assets are included in the calculation. If the swimming pool or spa were to fail due to an earthquake, there would likely be a meeting of the membership to assess the cost of replacement. This is what happened when the bridge to the pool area was destroyed. What is included in the study is the pool buildings, pumps, and electrical systems. In the same light, we do not set aside reserves to replace the tennis court pavement or the basketball court. The statute governing reserve studies states that assets with a life greater than 30 years need not be included.

The analysis serves as a guide for the board in setting membership rates. It allows for "what if" discussions and frequently is revised as new information becomes available.