

**CAUGHLIN RANCH HOMEOWNERS ASSOCIATION
2010 APPROVED BUDGET
FOOTNOTES**

Summary of the 2009 Budget

The amount of residential membership dues estimated for the 2009 budget was \$2,004,792. The amount projected to be received, based on actual receipts through August 2009, is \$2,004,482. The amount used in the 2010 Draft Budget for 2009 Actual is \$1,994,792. This amount is consistent with the assumption of Bad Debt used in the Approved 2009 Budget. The number of memberships projected for the calculation of Membership Assessments in the Approved 2009 Budget was 2,168 memberships. The actual number of residential memberships estimated for 2009 is 2,168. The number of residential units has been consistent for the past 4 years as the result of the delay in the Canyon Edge Project, which has not started construction, and the lack of sales in the Whispering Pines subdivision.

It was estimated that the amount of non-residential assessments (commercial dues) for the Approved 2009 Budget was to be \$131,322. The actual amount of non-residential assessments billed in 2009 will be \$131,514.

It is estimated using actual expenses through August 2009 that the **YEAR END BALANCE for 2009 will be a surplus of \$85,907**, Line 121. The 2009 Budget included \$39,000 for improvements to the Alum Creek channel. This project was not completed, and has been included in the 2010 budget.

Overview of the 2010 Budget

The active projects in 2010 will be Canyon Edge and Whispering Pines. However, at this time, the total residential memberships estimated for the end of 2010 is 2,168 memberships. The 2010 Budget illustrates membership assessments in accordance with accrual accounting. CRHA staff no longer estimate how the quarterly assessments will be received each month. The accrual accounting method requires that the billing for each quarter be spread equally over the three months in the quarter. **The 2010 budget illustrates a deficit of (\$51,011) on Line 121; however, \$39,000 of the 2010 deficit is for the improvements to the Alum Creek channel, which were originally approved in the 2009 budget, but not completed this year, the funds budgeted for 2009 were carried over to 2010.**

Line 5. There is no increase in annual assessment under the membership projections of 2,168 members. It is estimated that the amount of membership assessments required to balance the budget is **\$2,004,788**. The residential membership assessments proposed to be billed is illustrated as **\$167,066** per month for 12 months. The 2010 Proposed Budget would result in a **deficit of (\$51,011)** under the current assessment structure, Line 121.

Line 6. There is no increase in annual assessment for the non-residential members (commercial membership classification). The amount of commercial membership assessments required to balance the budget is **\$131,988**. The commercial membership assessments proposed to be billed as **\$10,999** per month. The accrual accounting method requires that the billing be spread equally over the 12 months.

Line 33. The Board has adopted an evaluation procedure for the General Manager, and a new policy for salaries and bonuses, which was implemented this year. In conformance with the Board's new salary policy, all employees whose salaries are at or exceed the 75th percentile for the range (approved for that salary) are eligible for a wage increase equal to a cost of living increase, based on the Consumer Price Index (CPI) Western Urban. The CPI for January 2009 to July 2009 was 1.6%; however, the CPI calculated for the past 12 months is -0.3%. Accordingly, the Board will need to evaluate the CPI in January 2010 to determine the CPI for 2009. If the 2009 CPI is 1.6%, the General Manager's salary is proposed to increase from \$108,672 to \$110,411; this amount may be adjusted.

Line 34. In conformance with the Board' new salary policy, all employees whose salaries are at or exceed the 75th percentile for the range (approved for that salary) are eligible for a wage increase equal to a cost of living increase, based on the Consumer Price Index (CPI) Western Urban. Accordingly, the Administrative Assistant/Bookkeeper's salary is proposed to increase from \$54,041 to \$54,900; this amount may be adjusted.

Line 35. In conformance with the Board' new salary policy, all employees whose salaries are at or exceed the 75th percentile for the range (approved for that salary) are eligible for a wage increase equal to a cost of living increase, based on the Consumer Price Index (CPI) Western Urban. Accordingly, the Secretary/Assistant wages are proposed to increase from \$37,800 to \$38,405; this amount may be adjusted.

Line 36. In conformance with the Board' new salary policy, all employees whose salaries are between the median and the 25th percentile for the range (approved for that salary) are eligible for a wage increase of 6%. Accordingly, the Assistant Manager's salary is proposed to increase from \$45,000 to \$47,700.

Line 37. There is a **reduction of \$50 per month** included in the 2010 budget for Office Rent based on the new lease agreement with the landlord. The new amount is \$1,842/month.

Line 38. The 2009 budget for Office expenses were reduced from the 2008 budgeted amount of \$61,920 to \$52,346. The actual expenses in 2008 were \$53,433. However, due to the change to the lockbox system, there were added office expenses for a new computer, software and technical support in 2009. The 2009 Actual is estimated to be \$58,834. The draft 2010 budget includes a reduction in office expense to \$48,000 in anticipation of savings created by the one way email communication and the change to the annual coupon booklet verses sending the billing statements on a quarterly basis.

Line 39. The Board previously requested that all election expenses be separated from office expenses. The amount budgeted for the Election of the Board is \$10,000. There are no special elections anticipated in 2010.

Line 40. The Board budgeted \$12,000 for telephone expenses for 2009. The actual amount was slightly higher due to the monthly fee for Randy's iPhone and the new telephone system required for the office. The amount proposed for telephones for 2010 is \$12,360.

Line 41. Past budgets have included the private gate telephone fees. The Association's current budget separates private gate expensed, excluding the telephone, into the Reserve Account Expenses. A new line item has been added for Private Gate Telephones because it is an operating expense. The amount proposed for Private Gate Telephones for 2010 is \$1,573.

Line 42. The Board has adopted a new policy for salaries and bonuses. The Board reduced the amount budgeted for 2009 from \$26,145 to \$10,000; however, no bonuses were approved by the Board. Based on the Board's new policy, bonuses should not exceed \$10,000 in a given year, unless extraordinary circumstances exist.

Line 43. The Board budgeted \$64,416 for Legal expenses for 2009. The actual amount has been significantly lower. Based on the reduction in Legal Fees in 2009, the amount proposed for Legal Fees for 2010 is \$51,996.

Line 44. The Board budgeted \$20,100 for Accounting expenses for 2009; however, the Board requested more services be provided by the Association's accountant. The amount proposed for Accounting Fees for 2010 is \$21,600.

Line 45. The Association's budgets have always included revenues for membership assessments based on the number of recorded lots which have been sold to a third party. The owner of the property is responsible for the

annual assessments. Due to the state of the national, state and local economies, the Association has experienced a number of foreclosures in the past 2 years. Previously, the Association could expect to recover the full amount of delinquent assessments. However, with the current economic conditions, the Association can expect some foreclosures to occur and the possibility of not being fully reimbursed by the Bank or purchaser, when the final action of the foreclosure is concluded. Accordingly, the Board has included a line item for Bad Debt. The amount of Bad Debt budgeted for 2009 was \$10,000, line 45. The amount of Bad Debt budgeted for 2010 is \$10,000. With the passage of Assembly Bill 204, the Association can now collect 9 months of delinquent assessments under the super priority lien status allowed by Chapter 116 of the Nevada Revised Statutes.

Line 46. The Board requested that Management Consulting be added to the 2009 budget. The amount budgeted is \$2,000, plus \$500 for each strategic planning session. The same amount is budgeted for 2010.

Line 47. The Board requested that expenses be added to the 2009 budget for the publication expenses of the *Caughlin Rancher*. The amount budgeted is \$2,000, \$500 per quarterly publication. The same amount is budgeted for 2010.

Line 48. The Association's Liability Insurance policy was reviewed last year and a significant savings resulted by getting competitive bids. The Association's insurance policy is currently written under Philadelphia Insurance, and is considered to be one of the most competitive in the industry. The manager has requested bids from various insurance companies. Based on the Philadelphia Insurance policy, \$22,280; \$3,686 for the \$4,000,000 umbrella policy; and, the CNA policy for Directors and Officers Liability coverage of \$5,978, the Association's Liability Insurance premium was budgeted to be \$31,944 in 2009. The budget for 2010 is \$32,108.

Line 49. The Board budgeted \$22,409 for the Taxes/Licenses line item in 2009. An amount of \$10,000 was budgeted for federal income taxes for EIG Stock sale. The actual amount paid for federal income taxes on the EIG stock sale was \$3,920. The amount budgeted for the Taxes/Licenses line item in 2010 is \$11,498.

Line 50. The amount for PCE Fees remain the same based on actual expenses. The amount budgeted for 2010 is \$5,800.

Line 52. In conformance with the Board's new salary policy, all employees whose salaries are at or exceed the 75th percentile for the range (approved for that salary) are eligible for a wage increase equal to a cost of living increase, based on the Consumer Price Index (CPI) Western Urban. Accordingly, the Landscape Supervisor's salary is proposed to increase from \$72,792 to \$73,957; this amount may be adjusted.

Line 53. The line item for the Landscape Employees is a combination of the Fulltime Employees. The 2010 budget is proposing a 4.1% increase in hourly wages of the Fulltime Employees based on the exceptional appearance of the Ranch this year and the accomplishments of the Fulltime Employees. These wage increases include an increase during the months over-time is required for the weekend cleanup of the Village Green Park.

Line 54. In 2007, 2008 and 2009, the Board increased the number of Seasonal Employees from 13 to 17. This was extremely beneficial to assist in the number of requests for removal of dead plant material, grass and debris creating concerns for fire danger. There are 17 Seasonal Employees proposed for 2010. The Board approved an increase for Seasonal Employees of 6% in the 2009 budget based on the exceptional appearance of the Ranch last year and the accomplishments of the CRHA Seasonal Employees. However, the Association was unable to keep many of the Association's trained Seasonal Employees, and many new Seasonal Employees were added this year. Accordingly, there is no increase proposed for this line item in the 2010 budget.

Line 56. The Association’s Group Medical Insurance is currently through Hometown Health Plan. In 2009 the Board increased this line item by 10% above the 2008 actual expenses for the 2009 budget. However, the actual increase for 2009 for medical insurance was much higher. The amount budgeted for 2010 is \$86,004. This is based on the assurance by the Association’s insurance carrier that there will not be an increase in premiums for 2010 above the actual increase in the premiums charged in 2009.

Line 57. Funds have been added for payroll taxes based on the proposed increases in salaries and wages.

Line 58. The Association has been able to reduce its Workers’ Compensation insurance over the past two years. The amount budgeted for 2009 was \$15,907, compared to \$17,081 charged to the Association in 2008. The amount budgeted for 2010 is \$14,964, based on the Association’s current policy with Work Care Northwest.

Line 59. The SEP IRA funded by the Association is available to the Association’s full-time employees after the initial probationary period. The SEP IRA is equal to 10% of the employee’s wage and is invested with Morgan Stanley. Several of the landscape employees became eligible for the SEP IRA program in 2004. Adjustments are made to this line item as employees become eligible. The Board has approved a Committee to review the Association’s benefit package for CRHA staff in 2010.

Line 61. The Association pays 2 fees to the Steamboat Canal and Irrigation Company (Steamboat Ditch). The first fee is based on 5 shares of stock in the company, and the shareholder’s annual expenses of the company’s previous operating costs. The second fee is based on the Maintenance Agreement. The Association pays a flat rate of \$1,000 for the Maintenance Agreement fee. The amount budgeted for 2010 is \$8,500 for Steamboat Ditch. The Association pays a separate fee to the Federal Water Master. The total amount budgeted for 2010 is \$8,600.

Lines 62 to 72: The Board requested that lines items related to landscape maintenance be budgeted at a rate consistent with past budgets based on the Board’s desired level of service for maintenance of the Association’s common areas.

Line 65. Plant Material and Replacement includes the replacement of trees and shrubs that die throughout Caughlin Ranch (a portion of which is replaced each year), and the annual flower program of \$16,500 per year. The total amount budgeted for 2010 is \$25,500.

Line 72. The Board continued its water conservation projects. The estimated costs of the projects for 2010 are \$11,100. In addition, \$39,000 was budgeted for the improvements to the Alum Creek channel in the 2009 budget. These improvements were not completed in 2009 and are included in the 2010 budget.

Water Conservation Projects	
(1) Bitterroot Road grass planters	\$2,500.00
(2) Castleridge planters	\$1,000.00
(3) Whispering Pines planters	\$1,100.00
(4) Caughlin Creek planters	\$4,500.00
(5) Pond at Caughlin Ranch Entrance	\$2,000.00
Total Water Conservation Projects	\$11,100.00

Lines 87 to 146: Chapter 116 of the Nevada Revised Statutes (NRS 116) requires the Association to maintain a reserve fund for the repair, replacement and restoration of the major components of the common areas. The Association has several reserve accounts, as required by state law. The approximate balance of the Association’s reserve accounts are illustrated on **Lines 133, 137, 139 and 141.**

Line 135. The funds in the CRHA Park Tax Account are not generated from membership dues. In the past, it has been funded by park tax refunds received from Washoe County, per the agreement between Washoe County and the Association. The funds in this account have been set aside for emergency purposes for the replacement, repair or restoration of the Alum Creek Channel. The repairs made by the Association resulting from the '97 New Year Flood and the 2006 New Year's Eve Flood have been made with funds from this account. Otherwise, the Board would have needed to request a Special Assessment for these repairs.

NRS 116 MANDATED RESERVES

Pursuant to Chapter 116 of the Nevada Revised Statutes (NRS 116), the Association must conduct a Reserve Study for the replacement of capital items and major components of the Association's common areas. The Association will no longer use loans for the purchase of capital items and repairs and replacement of major components of the Association's common areas. The Association will collect the required funds as a portion of membership dues and will spend the reserve funds as projected by the Reserve Study.

These Reserve Studies were updated in 2005 and approved with the 2006 Budget. There were significant increases in the monthly transfers.

The Board have included all Capital Equipment and major components of the common areas in a Reserve Study to comply with Chapter 116 of NRS: Sections NRS 116.3115, NRS 116.31151 and NRS 116.31152. The Reserve Study approved by the Board with the 2006 Budget includes monthly transfer of \$19,006 for NRS 116 Reserve Account \$6,955 for the Class "C" reserve account and, \$2,206 for the Class "D" reserve account.

It is required by State Law that these Reserve Studies are updated every five years, and reviewed every year. The Caughlin Ranch 2005 Reserve Study included the following items and assumptions which created an increase in the monthly transfer. The Board reviews these assumptions annually.

THE ANNUAL INTEREST RATE

The interest return used for the 2000 reserve study for on the reserve funds was 5.7%. At the time the reserve study was approved in 2000, interest rates were higher. In 2001 the legislature required that the funds be kept in a FDIC insured account. During 2003, 2004, and 2005 interest rates ranged from as low as 0.8% to 1.25% in the Morgan Stanley Accounts used by Caughlin Ranch.

The problem was created by using an interest rate at the highest current level is an assumption that the return on the reserve funds over a 30-year period at the higher rate will be compounded. This creates an expectation of future revenues that is not realistic. Accordingly, although the current reserve studies use an interest rate 1.25% and an inflation rate of 2.5%, both of these figures are conservative. Accordingly, revenue from interest earned over 30 years will not be over-stated and the cost increase for ongoing replacement, repair and restoration of the major components of the common elements won't be underestimated.

There are no changes recommend for the interest rate or the inflation rate.

EXPECTED LIFE FOR THE ASSOCIATION'S TRUCK FLEET

The expected life for the Associations trucks used in the 2000 reserve study was 15 years. This life expectance was changed to 10 years with the approval of the 2005 Reserve Study. The estimated replacement cost at the time of the 2000 reserve study was based on the value of the truck, in most cases \$17,000-\$18,000. CRHA staff

requested that the trucks purchased by the Association be 4-wheel drive vehicles not 2 wheel drive. The Board agreed. The vehicle replacement cost approved in 2005 was \$24,000-\$25,000. This amount is adjusted yearly in the reserve study to account for inflation.

There are no changes proposed.

CURRENT EQUIPMENT NOT ON THE 2005 LIST

The 2007 equipment acquisition for the NRS 116 Reserve included 2 small riding mowers in lieu of one large tractor mower. The 2009 equipment acquisition for the NRS 116 Reserve included a Sod Cutter and a new telephone system. The sod cutter was not previously on the list of equipment and the phone system was not previously on the list of equipment.

There are no other changes proposed.

INCREASE IN THE RESERVE TRANSFER DUE TO THE OIL INCREASE

After CRHA staff completed the initial update to the 2005 Reserve Study, CRHA staff contacted the Association's vendor for the pathway sealing. As the manager, I was concerned that the default value in the reserve study program of \$0.48 square foot for the one-inch overlay for the asphalt for the paths was too low. The amount allocated for the paths 124,743 square feet of 1-inch asphalt was \$62,733. However, after contacting the Association's vendor and 2 other asphalt contractors, CRHA staff was told that due to oil increases, the cost for a one-inch overlay of asphalt would cost in excess of \$1.00 per square foot, if the work was scheduled in the next 30 days and completed in 2005. In fact, no contractor would quote the Association a price for the overlay work scheduled for 2006.

After consulting with various sources, a value of \$1.25 for a one-inch asphalt overlay in 2006. As a result, this one item increased from \$62,733 to \$163,915. In addition, the Board double all other oil-based products used in sealing, repair or restoration of the Association's paths and private streets.

There are currently no changes proposed FOR THE NRS 116 RESERVE ACCOUNT by the manager. Although gas prices have dropped in recent weeks, the Association must assume that oil prices will remain high, especially during the summer months when the work is completed. Gas and oil-based products, like asphalt, will remain high and the assumptions used for increases used in the 2005 Reserve Study should not change unless drastic long-term changes in oil prices are experienced.

APPROVAL OF RESERVE STUDY FOR CRHA 2005-2010 with Bobcat

The Board approved the 2005 reserve study with the option to purchase a bobcat. The monthly transfer for the NRS 116 Reserve Account was approved as \$19,006.

WITH THE INCREASE IN MEMBERSHIP ASSESSMENTS OF 10% IN 2008, THE BOARD PROPOSED THAT THE TRANSFER FOR THE NRS 116 RESERVE ACCOUNT BE INCREASED BY 10% TO \$20,907. THERE ARE NO OTHER CHANGES PROPOSED.

RESERVE STUDY FOR CAUGHLIN CREEK/DEERCREEK CLASS "C" 2005-2010

The original reserve study was prepared by Statewide Inspection Services for SilverStar Development for the Deercreek area of Caughlin Creek. CRHA staff used the same reserve study figures for Caughlin Creek to calculate the monthly transfer fee of \$2,990.

Several items needed to be added to the reserve study for the 2005 update and the two (2) areas (Caughlin Creek and Deercreek) were combined into one report. The increase in the monthly Class "C" reserve transfer was from \$2,990 to \$6,955, due to the increase in oil and asphalt related products.

WITH THE INCREASE IN MEMBERSHIP ASSESSMENTS OF 10% IN 2008, THE BOARD PROPOSED THAT THE TRANSFER FOR THE CLASS C RESERVE ACCOUNT BE INCREASED IN 2008 BY 10% TO \$7,651. THERE ARE NO OTHER CHANGES PROPOSED.

RESERVE STUDY FOR MOUNTAINSHYRE CLASS "D" 2005-2010

The original reserve study was prepared by Statewide Inspection Services for the MountainShyre area. CRHA staff used the same reserve study figures for MountainShyre to calculate the monthly transfer fee of \$974.00. Several items needed to be added to the reserve study for the 2005 update and the two (2) areas were combined into one report. The increase in the monthly Class "D" reserve transfer was from \$974.00 to \$2,206 per month, due to the increase in oil and asphalt related products.

WITH THE INCREASE IN MEMBERSHIP ASSESSMENTS OF 10% IN 2008, THE BOARD PROPOSED THAT THE TRANSFER FOR THE CLASS D RESERVE ACCOUNT BE INCREASED IN 2008 BY 10% TO \$2,427. THERE ARE NO OTHER CHANGES PROPOSED.

The Association will need to complete the asphalt sealing of the trails and streets in Caughlin Ranch, Caughlin Creek/DeerCreek and MountainShyre as they are identified in the Reserve Studies. The following is a list of items to be restored, repaired and/or replaced:

Items Expensed for 2010 for the NRS 116 Reserve Account:

<u>Equipment</u>		<u>Village Green Park</u>	
48" Walk behind mower	\$ 4,349	Tennis Court Nets	\$ 302
Cushman #2	\$23,233	Tennis Court Posts	\$ 725
Blowers	\$ 966		
Weed eaters #3	\$ 3,020	<u>Eastridge Park</u>	
Trailer #2	\$ 1,742	Replace Park Equipment	\$35,035
Paint Rig	\$ 4,108		
Power Washer	\$ 1,742	<u>Path Sealing Section #1</u>	
		Path Sealing Section #2	\$23,233
<u>Vehicle</u>		Hot rubber for cracks	\$ 6,273
Ford 4x4 Truck	\$28,957	A/C patch	\$ 8,712
		Tack	\$ 3,943
<u>Office Equipment</u>		NRS 116 Account Total:	\$156,374
Computer and software #1	\$ 2,904		
Printer #4	\$ 1,060		

Items Expensed for 2010 for the Class "C" Reserve Account **

<u>Irrigation System</u>		<u>Perimeter Fence</u>	
Replace Backflow Devices	\$ 3,775	Fence Posts 6"x 6"	\$24,279
		Fence Planks	\$39,229
<u>Private Street Lights</u>		<u>Unit 5 Private Street</u>	
Replace Lights Unit 1	\$ 383	Slurry Seal Streets	\$10,594
Replace Lights Unit 2A	\$ 2,300	Paving Tar Cracks	\$ 2,649
		Class "C" Total	\$ 83,209

Items Expensed for 2010 for the Class "D" Reserve Account

<u>Private Gates</u>	
Gate Motor and Equipment	\$23,233
Class "D" Total	\$23,233