

KENSINGTON GARDENS HOMEOWNERS' ASSOCIATION, INC.

MAINTENANCE PLAN

RESERVE STUDY

LEVEL I: FULL RESERVE STUDY FUNDING ANALYSIS

2017



KENSINGTON GARDENS HOMEOWNERS' ASSOCIATION, INC.

Executive Summary

Year of Report:

January 1, 2017 to December 31, 2017

Number of Units:

27 Units

Parameters:

Beginning Balance: \$2,000

Year 2017 Suggested Contribution: \$3,500

Year 2017 Projected Interest Earned: \$3

Inflation: 2.50%

Annual Increase to Suggested Contribution: 2.50%

Lowest Cash Balance Over 30 Years (Threshold): \$4,503

Average Reserve Assessment per Unit: \$10.80

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SCHWINDT & CO.
RESERVE STUDY SERVICES

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RESERVE STUDY

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**Kensington Gardens Homeowners' Association, Inc.
Maintenance Plan
Reserve Study – Onsite
Disclosure Information
2017**

We have conducted an onsite reserve study and maintenance plan for Kensington Gardens Homeowners' Association, Inc. for the year beginning January 1, 2017, in accordance with guidelines established by Community Associations Institute and the American Institute of Certified Public Accountants.

This reserve study and maintenance plan is in compliance with the legislative changes made in 2007 to ORS Chapters 94 and 100.

We have no other involvement with the Association other than providing the reserve study and maintenance plan.

Assumptions used for inflation, interest, and other factors are detailed in page 13. Income tax factors were not considered due to the uncertainty of factors affecting net taxable income and the election of the tax form to be filed.

David T. Schwindt, the representative in charge of this report, is a designated Reserve Study Specialist, Professional Reserve Analyst, and Certified Public Accountant licensed in the states of Oregon, Washington, California, and Arizona.

All information regarding the useful life and cost of reserve components was derived from local vendors and/or from various construction pricing and scheduling manuals.

The terms *RS Means*, *National Construction Estimator*, and *Fannie Mae Expected Useful Life Tables and Forms* refer to construction industry estimating databases that are used throughout the industry to establish cost estimates and useful life estimates for common building components and products. We suggest that the Association obtain firm bids for these services.

Section 1.6 of the Association's Declaration states, “Common Area shall mean those portions of the Property designated as Tracts A and B, inclusive in the final plat of Kensington Gardens (the “Plat”) and shall be owned and maintained by the Association.”

Section 1.12 of the Association's Declaration states, “Private Streets shall mean Tract A; which shall be owned and maintained by the Association.”

Section 3.9 of the Association's Declaration states, “Without limiting the generality of the general powers and duties of the Association set forth in Section 3, the Association shall have the power and obligation to conduct and perform, and to engage contractors to conduct and perform, the maintenance and repair of the Common Area, Private Street and Lawn. Maintenance of the Common Area, Private Street and Lawn shall include, among other things, maintaining, repairing, and replacing surfaces, improvements, and landscaping in a neat, clean, and attractive condition, as well as the maintenance and repair of all utility systems serving or within the Common Area. Such improvements shall include; private drives; street lights along private drives; “no parking” signs; and signs for private streets. Decisions as to the nature and extent of maintenance and the timing of such maintenance shall be solely within the discretion of the Board.”



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RESERVE STUDY SERVICES

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Section 9.1 of the Association's Declaration states, "Except to the extent common areas are maintained by the Association, Owner shall maintain the Lot and improvements on each Lot in a clean and attractive condition, in good repair, and in such a manner as not to create a fire hazard."

Section 9.8 of the Association's Declaration states, "All landscaping of each Lot, and of the street trees fronting each Lot, shall be the responsibility of the Owner of the Lot, and other than landscaping planted by Declarant, and replacement of dead or diseased plants with plants of the same species, must be approved in advance by the Board. Except to the extent Lawns are maintained by the Association, all landscaping located on any Lot shall be properly maintained at all times by the Owner, and each Owner shall keep all shrubs, trees, grass, and plantings of every kind on his or her Lot and such street trees cultivated, pruned, free of trash, and other unsightly material. The Association is not responsible for keeping clear or maintaining the drainage systems of any Lot, and the responsibility for the same shall remain with the Owner of the Lot. Declarant, the Association, and the Board shall have the right at any reasonable time to enter upon any Lot to replace, maintain, and cultivate shrubs, trees, grass, or other plantings as deemed necessary, and to charge the cost thereof to the Owner as a Limited Assessment."

Due to increased building activity we have seen a dramatic increase in certain vendor pricing during 2016. However, it currently is not known if this is a temporary or permanent increase. We have not considered this increase in current cost projections but will monitor these costs on a go forward basis.

An earthquake insurance deductible is not included in the reserve study.

We are not aware of any material issues which, if not disclosed, would cause a material distortion of this report.

Certain information, such as the beginning balance of reserve funds and other information as detailed on the component detail reports, was provided by Association representatives and is deemed to be reliable by us. This reserve study is a reflection of the information provided to us and cannot be used for the purpose of performing an audit, a quality/forensic analysis, or background checks of historical records.

Site visits should not be considered a project audit or quality inspection of the Association's property. This site visit does not evaluate the condition of the property to determine the useful life or needed repairs. Schwindt & Company suggests that the Association perform a building envelope inspection to determine the condition, performance, and the useful life of all the components.

Certain costs outlined in the reserve study are subjective and, as a result, are for planning purposes only. The Association should obtain firm bids at the time of work. Actual costs will depend upon the scope of work as defined at the time the repair, replacement, or restoration is performed. All estimates relating to future work are good faith estimates and projections are based on the estimated inflation rate, which may or may not prove accurate. All future costs and life expectancies should be reviewed and adjusted annually.

This reserve study, unless specifically stated in the report, assumes no fungi, mold, asbestos, lead paint, urea-formaldehyde foam insulation, termite control substances, other chemicals, toxic wastes, radon gas, electro-magnetic radiation or other potentially hazardous materials (on the surface or sub-surface), or termites on the property. The existence of any of these substances may adversely affect the accuracy of this reserve study. Schwindt & Company assumes no responsibility regarding such conditions, as we are not qualified to detect substances, determine the impact, or develop remediation plans/costs.

Since destructive testing was not performed, this reserve study does not attempt to address latent and/or patent defects. Neither does it address useful life expectancies that are abnormally short due either to improper design, installation, nor to subsequent improper maintenance. This reserve study assumes all components will be reasonably maintained for the remainder of their life expectancy.

Physical Analysis:

New projects generally include information provided by developers and/or refer to drawings.

Full onsite reserve studies generally include field measurements and do not include destructive testing. Drawings are usually not available for existing projects.

Onsite updates generally include observations of physical characteristics, but do not include field measurements.

This reserve study should be reviewed carefully. It may not include all common and limited common element components that will require major maintenance, repair, or replacement in future years, and may not include regular contributions to a reserve account for the cost of such maintenance, repair, or replacement. The failure to include a component in a reserve study, or to provide contributions to a reserve account for a component, may, under some circumstances, require homeowners to pay on demand (as a special assessment) their share of common expenses for the cost of major maintenance, repair, or replacement of a reserve component.

KENSINGTON GARDENS HOMEOWNERS' ASSOCIATION, INC.

MAINTENANCE PLAN

2017

Kensington Gardens Homeowners' Association, Inc.
RA Executive Summary of Maintenance Plan

Regular maintenance of common elements is necessary to insure the maximum useful life and optimum performance of components. Of particular concern are items that may present a safety hazard to residents or guests if they are not maintained in a timely manner and components that perform a water-proofing function.

This maintenance plan is a cyclical plan that calls for maintenance at regular intervals. The frequency of the maintenance activity and the cost of the activity at the first instance follow a short descriptive narrative. This maintenance plan should be reviewed on an annual basis when preparing the annual operating budget for the Association.

Checklists, developed by Reed Construction Data, Inc., can be photocopied or accessed from the RS Means website:

<http://www.rsmeans.com/supplement/67346.asp>

They can be used to assess and document the existing condition of an Association's common elements and to track the carrying out of planned maintenance activities.

Kensington Gardens Homeowners' Association, Inc.
Maintenance Plan
2017

Pursuant to Oregon State Statutes Chapters 94 and 100, which require a maintenance plan as an integral part of the reserve study, the maintenance procedures are as follows:

The Board of Directors should refer to this maintenance plan each year when preparing the annual operating budget for the Association to ensure that annual maintenance costs are included in the budget for the years that they are scheduled.

Asphalt – Seal Coating

Maintenance of asphalt paving includes the periodic application of an asphalt emulsion sealer or “seal coat”. This procedure is typically performed every 4 to 7 years, depending on a variety of factors that can affect the useful life of the sealer.

Vehicle traffic is one such factor, and associations that have asphalt paving that carries considerable vehicle traffic should consider a maintenance program that calls for seal coating of asphalt driving surfaces as frequently as every 4 years.

This maintenance procedure involves thoroughly cleaning all pavements, filling of any surface cracks and patching of any locally damaged pavement surfaces. The emulsion sealer is then applied.

This work should be performed by a licensed paving contractor.

This expense is included in the reserve study for the Association.

Frequency: Every 7 years, beginning in 2022

Fence – Wood - Maintenance

The wood fence located along the private street should undergo periodic maintenance in order to achieve a maximum useful life. Maintenance includes cleaning and locally repairing the wood fence.

This expense is included in the reserve study for the Association.

Frequency: Every 3 years, beginning in 2019

This maintenance plan is designed to preserve and extend the useful life of assets and is dependent upon proper inspection and follow up procedures.

KENSINGTON GARDENS HOMEOWNERS' ASSOCIATION, INC.

RESERVE STUDY

LEVEL I: FULL RESERVE STUDY FUNDING ANALYSIS

2017

Kensington Gardens Homeowners' Association, Inc.
RA Category Detail Index

Asset ID	Description	Replacement	Page
Streets/Asphalt			
1030	Private Road - Asphalt Overlay	2029	20 of 28
1029	Private Road - Asphalt Seal Coat (I)	2022	20 of 28
1035	Private Road - Asphalt Seal Coat (II)	2036	21 of 28
Fencing/Security			
1032	Wood Fence - Replacement	2025	22 of 28
1031	Wood Fence - Stain and Repair (I)	2019	22 of 28
1034	Wood Fence - Stain and Repair (II)	2028	23 of 28
Insurance Deductible			
1033	Insurance Deductible	2017	24 of 28
	Total Funded Assets	7	
	Total Unfunded Assets	0	
	Total Assets	7	

Kensington Gardens Homeowners' Association, Inc.
RA Property Description

Kensington Gardens Homeowners' Association, Inc. is a Planned Unit Development (PUD) consists of 27 single-family homes located in Hillsboro, Oregon. The property was constructed in 2003. The Association shall provide exterior improvements to the private road and wood fence. The individual homeowners are responsible for all maintenance and repairs of the interior and exterior of their home.

This study uses information supplied by vendors and various construction pricing and scheduling manuals to determine useful lives and replacement costs.

A site visit was performed by Schwindt & Co. in 2016. Schwindt and Co. did not investigate components for defects, materials, design or workmanship. This would ordinarily be considered in a complete building envelope inspection. Our condition assessment considers if the component is wearing as intended. All components are considered to be in fair condition and appear to be wearing as intended unless noted otherwise in the component detail.

Funds are being accumulated in the replacement fund based on estimates of future need for repairs and replacement of common property components. Actual expenditures, investment income, and provisions for income taxes however, may vary from estimated amounts, and variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future funding needs.

If additional funds are needed, the Association has the right, subject to board approval, to increase regular assessments, levy special assessments, otherwise the Association may delay repairs or replacements until funds are available.

Kensington Gardens Homeowners' Association, Inc.
 Hillsboro, Oregon
RA Cash Flow Method - Threshold Funding Model Summary

		<i>Report Parameters</i>
Report Date	November 29, 2016	2.50%
Account Number	2KENIS	2.50%
Budget Year Beginning	January 01, 2017	0.10%
Budget Year Ending	December 31, 2017	
Total Units	27	
		2017 Beginning Balance
		\$2,000.00

**Threshold Funding
Fully Reserved Model Summary**

- This study utilizes the cash flow method and the threshold funding model, which establishes a reserve funding goal that keeps the reserve balance above a specified dollar or percent funded amount. The threshold method assumes that the threshold method is funded with a positive threshold balance, therefore, "fully reserved".
- The following items were not included in the analysis because they have useful lives greater than 30 years: grading/drainage; foundation/footings; storm drains; telephone, cable, and internet lines.
- This funding scenario begins with a contribution of **\$3,500** in 2017 and increases **2.50%** each year for the remaining years of the study. A minimum balance of **\$4,503** is maintained.
- The purpose of this study is to insure that adequate replacement funds are available when components reach the end of their useful life. Components will be replaced as required, not necessarily in their expected replacement year. This analysis should be updated annually.

Cash Flow Method - Threshold Funding Model Summary of Calculations

Required Month Contribution	\$291.67
<i>\$10.80 per unit monthly</i>	
Average Net Month Interest Earned	\$0.24
Total Month Allocation to Reserves	\$291.91
<i>\$10.81 per unit monthly</i>	

Kensington Gardens Homeowners' Association, Inc.
RA Cash Flow Method - Threshold Funding Model Projection

Beginning Balance: \$2,000

Year	Annual Contribution	Annual Interest	Annual Expenditures	Projected Ending Reserves
2017	3,500	3	1,000	4,503
2018	3,587	6		8,097
2019	3,677	6	3,719	8,061
2020	3,769	10		11,840
2021	3,863	14		15,718
2022	3,960	10	7,386	12,302
2023	4,059	15		16,376
2024	4,160	19		20,555
2025	4,264	10	12,939	11,890
2026	4,371	14		16,275
2027	4,480	19		20,774
2028	4,592	19	4,645	20,740
2029	4,707	10	13,395	12,062
2030	4,825	15		16,901
2031	4,945	15	5,002	16,860
2032	5,069	20		21,948
2033	5,196	25		27,169
2034	5,326	25	5,387	27,133
2035	5,459	30		32,621
2036	5,595	31	4,777	33,471
2037	5,735	31	5,801	33,436
2038	5,879	37		39,351
2039	6,025	43		45,419
2040	6,176	43	6,247	45,391
2041	6,331	49		51,771
2042	6,489	55		58,315
2043	6,651	50	12,405	52,610
2044	6,817	56		59,484
2045	6,988	63		66,535
2046	7,162	63	7,244	66,516

Kensington Gardens Homeowners' Association, Inc.
RA Component Summary By Category

Description	Date in Service	Replacement Year	Useful Adjustment	Remaining	Units	Unit Cost	Current Cost
Streets/Asphalt							
Private Road - Asphalt Overlay	2003	2029	25	1	12	4,980 SF	2.00
Private Road - Asphalt Seal Coat (I)	2015	2022	7	0	5	4,980 SF	0.60
Private Road - Asphalt Seal Coat (II)	2029	2036	7	7	19	4,980 SF	0.60
Streets/Asphalt - Total							\$15,936
Fencing/Security							
Wood Fence - Replacement	2003	2025	22	0	8	236 LF	45.00
Wood Fence - Stain and Repair (I)	2016	2019	3	0	2	2,832 SF	1.25
Wood Fence - Stain and Repair (II)	2025	2028	3	3	11	2,832 SF	1.25
Fencing/Security - Total							\$17,700
Insurance Deductible							
Insurance Deductible	2016	2017	1	0	0	1 Total	1,000.00
Insurance Deductible - Total							\$1,000
Total Asset Summary							\$34,636

Kensington Gardens Homeowners' Association, Inc.
RA Component Summary By Group

Description	Date in Service	Replacement Year	Useful	Adjustment	Remaining	Units	Unit Cost	Current Cost
Capital								
Private Road - Asphalt Overlay	2003	2029	25	1	12	4,980 SF	2.00	9,960
Wood Fence - Replacement	2003	2025	22	0	8	236 LF	45.00	<u>10,620</u>
Capital - Total								\$20,580
Non-Capital								
Insurance Deductible	2016	2017	1	0	0	1 Total	1,000.00	1,000
Private Road - Asphalt Seal Coat (I)	2015	2022	7	0	5	4,980 SF	0.60	2,988
Private Road - Asphalt Seal Coat (II)	2029	2036	7	7	19	4,980 SF	0.60	2,988
Wood Fence - Stain and Repair (I)	2016	2019	3	0	2	2,832 SF	1.25	3,540
Wood Fence - Stain and Repair (II)	2025	2028	3	3	11	2,832 SF	1.25	<u>3,540</u>
Non-Capital - Total								\$14,056
Total Asset Summary								\$34,636

Kensington Gardens Homeowners' Association, Inc.
RA Annual Expenditure Detail

Description	Expenditures
Replacement Year 2017	
Insurance Deductible	1,000
Total for 2017	\$1,000
<i>No Replacement in 2018</i>	
Replacement Year 2019	
Wood Fence - Stain and Repair (I)	3,719
Total for 2019	\$3,719
<i>No Replacement in 2020</i>	
<i>No Replacement in 2021</i>	
Replacement Year 2022	
Private Road - Asphalt Seal Coat (I)	3,381
Wood Fence - Stain and Repair (I)	4,005
Total for 2022	\$7,386
<i>No Replacement in 2023</i>	
<i>No Replacement in 2024</i>	
Replacement Year 2025	
Wood Fence - Replacement	12,939
Total for 2025	\$12,939
<i>No Replacement in 2026</i>	
<i>No Replacement in 2027</i>	
Replacement Year 2028	
Wood Fence - Stain and Repair (II)	4,645
Total for 2028	\$4,645
Replacement Year 2029	
Private Road - Asphalt Overlay	13,395
Total for 2029	\$13,395

Kensington Gardens Homeowners' Association, Inc.
RA Annual Expenditure Detail

Description	Expenditures
<i>No Replacement in 2030</i>	
Replacement Year 2031	
Wood Fence - Stain and Repair (II)	5,002
Total for 2031	\$5,002
<i>No Replacement in 2032</i>	
<i>No Replacement in 2033</i>	
Replacement Year 2034	
Wood Fence - Stain and Repair (II)	5,387
Total for 2034	\$5,387
<i>No Replacement in 2035</i>	
Replacement Year 2036	
Private Road - Asphalt Seal Coat (II)	4,777
Total for 2036	\$4,777
Replacement Year 2037	
Wood Fence - Stain and Repair (II)	5,801
Total for 2037	\$5,801
<i>No Replacement in 2038</i>	
<i>No Replacement in 2039</i>	
Replacement Year 2040	
Wood Fence - Stain and Repair (II)	6,247
Total for 2040	\$6,247
<i>No Replacement in 2041</i>	
<i>No Replacement in 2042</i>	
Replacement Year 2043	
Private Road - Asphalt Seal Coat (II)	5,678

Kensington Gardens Homeowners' Association, Inc.
RA Annual Expenditure Detail

Description	Expenditures
<i>Replacement Year 2043 continued...</i>	
Wood Fence - Stain and Repair (II)	6,727
Total for 2043	\$12,405
<i>No Replacement in 2044</i>	
<i>No Replacement in 2045</i>	
Replacement Year 2046	
Wood Fence - Stain and Repair (II)	7,244
Total for 2046	\$7,244

Kensington Gardens Homeowners' Association, Inc.
RA Detail Report by Category

Private Road - Asphalt Overlay		4,980 SF	@ \$2.00
Asset ID	1030	Asset Cost	\$9,960.00
Capital Streets/Asphalt		Percent Replacement	100%
Placed in Service	January 2003	Future Cost	\$13,395.09
Useful Life	25		
Adjustment	1		
Replacement Year	2029		
Remaining Life	12		

This component is to overlay the private road (SE Karpstein PL.).

Schwindt & Co. estimated 4,980 square feet of asphalt.

The cost is based on a per square foot estimate provided by Coast Pavement Services. The Association will need to obtain bids for this work.

The useful life assumption is based on estimates established on RS Means and/or the National Estimator.

Private Road - Asphalt Seal Coat (I)		4,980 SF	@ \$0.60
Asset ID	1029	Asset Cost	\$2,988.00
Non-Capital Streets/Asphalt		Percent Replacement	100%
Placed in Service	January 2015	Future Cost	\$3,380.65
Useful Life	7		
Replacement Year	2022		
Remaining Life	5		

This component is to seal coat the private road (SE Karpstein PL.).

Schwindt & Co. estimated 4,980 square feet of asphalt.

The cost is based on a per square foot estimate provided by Coast Pavement Services. The Association will need to obtain bids for this work.

The useful life assumption is based on estimates established on RS Means and/or the National Estimator.

Kensington Gardens Homeowners' Association, Inc.
RA Detail Report by Category

Private Road - Asphalt Seal Coat (II)		4,980 SF	@ \$0.60
Asset ID	1035	Asset Cost	\$2,988.00
Non-Capital Streets/Asphalt		Percent Replacement	100%
		Future Cost	\$4,776.77
Placed in Service	January 2029		
Useful Life	7		
Adjustment	7		
Replacement Year	2036		
Remaining Life	19		

This component is to seal coat the private road (SE Karpstein PL.). This component is scheduled to occur after the overlay.

Schwindt & Co. estimated 4,980 square feet of asphalt.

The cost is based on a per square foot estimate provided by Coast Pavement Services. The Association will need to obtain bids for this work.

The useful life assumption is based on estimates established on RS Means and/or the National Estimator.

Streets/Asphalt - Total Current Cost	\$15,936
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Kensington Gardens Homeowners' Association, Inc.
RA Detail Report by Category

Wood Fence - Replacement		236 LF	@ \$45.00
Asset ID	1032	Asset Cost	\$10,620.00
Capital Fencing/Security		Percent Replacement	100%
Placed in Service	January 2003	Future Cost	\$12,939.44
Useful Life	22		
Replacement Year	2025		
Remaining Life	8		

This component is to stain the wood fence by the private road (SE Karpstein PL.).

Schwindt & Co. estimated 236 lineal feet of the wood fence.

The cost and useful life assumptions are based on estimates established on RS Means and/or the National Estimator. The Association will need to obtain bids for this work.

Wood Fence - Stain and Repair (I)		2,832 SF	@ \$1.25
Asset ID	1031	Asset Cost	\$3,540.00
Non-Capital Fencing/Security		Percent Replacement	100%
Placed in Service	January 2016	Future Cost	\$3,719.21
Useful Life	3		
Replacement Year	2019		
Remaining Life	2		

This component is to stain the wood fence by the private road (SE Karpstein PL.).

Schwindt & Co. estimated 2,832 square feet of the wood fence. This area includes both sides of the fence.

The cost and useful life assumptions are based on estimates established on RS Means and/or the National Estimator. The Association will need to obtain bids for this work.

Kensington Gardens Homeowners' Association, Inc.
RA Detail Report by Category

Wood Fence - Stain and Repair (II)		2,832 SF	@ \$1.25
Asset ID	1034	Asset Cost	\$3,540.00
Non-Capital		Percent Replacement	100%
Fencing/Security		Future Cost	\$4,644.79
Placed in Service	January 2025		
Useful Life	3		
Adjustment	3		
Replacement Year	2028		
Remaining Life	11		

This component is to stain the wood fence by the private road (SE Karpstein PL.). This component is scheduled to occur after the replacement in 2025.

Schwindt & Co. estimated 2,832 square feet of the wood fence. This area includes both sides of the fence.

The cost and useful life assumptions are based on estimates established on RS Means and/or the National Estimator. The Association will need to obtain bids for this work.

Fencing/Security - Total Current Cost	\$17,700
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Kensington Gardens Homeowners' Association, Inc.
RA Detail Report by Category

Insurance Deductible		1 Total	@ \$1,000.00
	Asset ID	Asset Cost	\$1,000.00
	Non-Capital	Percent Replacement	100%
	Insurance Deductible	Future Cost	\$1,000.00
Placed in Service	January 2016		
Useful Life	1		
Replacement Year	2017		
Remaining Life	0		

This provision funds for the insurance deductible in the event a claim is made.

Insurance Deductible - Total Current Cost \$1,000

Additional Disclosures

Levels of Service

The following three categories describe the various types of Reserve Studies from exhaustive to minimal.

I. Full: A Reserve Study in which the following five Reserve Study tasks are performed:

- Component Inventory
- Condition Assessment (based upon on-site visual observations)
- Life and Valuation Estimates
- Fund Status
- Funding Plan

II. Update, With Site Visit/On-Site Review: A Reserve Study update in which the following five Reserve

Study tasks are performed:

- Component Inventory (verification only, not quantification)
- Condition Assessment (based on on-site visual observations)
- Life and Valuation Estimates
- Fund Status
- Funding Plan

III. Update, No Site Visit/Off Site Review: A Reserve Study update with no on-site visual observations in which the following three Reserve Study tasks are performed:

- Life and Valuation Estimates
- Fund Status
- Funding Plan

Terms and Definitions

CASH FLOW METHOD: A method of developing a reserve *Funding Plan* where contributions to the reserve fund are designed to offset the variable annual expenditures from the reserve fund. Different reserve *Funding Plans* are tested against the anticipated schedule of reserve expenses until the desired *Funding Goal* is achieved.

COMPONENT: The individual line items in the *Reserve Study* developed or updated in the *Physical Analysis*. These elements form the building blocks for the *Reserve Study*. *Components* typically are: 1) association responsibility; 2) with limited *Useful Life* expectancies; 3) predictable *Remaining Useful Life* expectancies; 4) above a minimum threshold cost; and 5) as required by local codes.

COMPONENT INVENTORY: The task of selecting and quantifying reserve *Components*. This task can be accomplished through on-site visual observations, review of association design and organizational documents, a review of established association precedents, and discussion with appropriate association representative(s) of the Association or cooperative.

COMPONENT METHOD: A method of developing a reserve *Funding Plan* where the total contribution is based

on the sum of contributions for individual *Components*. See *Cash Flow Method*.

CONDITION ASSESSMENT: The task of evaluating the current condition of the *Component* based on observed or reported characteristics.

CURRENT REPLACEMENT COST: See *Replacement Cost*.

DEFICIT: An actual or projected *Reserve Balance* that is less than the *Fully Funded Balance*. The opposite would be a *Surplus*.

EFFECTIVE AGE: The difference between *Useful Life* and *Remaining Useful Life*. Not always equivalent to chronological age since some *Components* age irregularly. Used primarily in computations.

FINANCIAL ANALYSIS: The portion of a *Reserve Study* where current status of the reserves (measured as cash or *Percent Funded*) and a recommended reserve contribution rate (*reserve Funding Plan*) are derived, and the projected reserve income and expense over time is presented. The *Financial Analysis* is one of the two parts of a *Reserve Study*.

FULLY FUNDED: 100% Funded. When the actual or projected *Reserve Balance* is equal to the *Fully Funded Balance*.

FULLY FUNDED BALANCE (FFB): Total accrued depreciation, an indicator against which actual or projected *Reserve Balance* can be compared. The *Reserve Balance* that is in direct proportion to the fraction of life “used up” of the current repair or *Replacement Cost*. This number is calculated for each *Component*, then added together for an association total. Two formulas can be utilized, depending on the provider’s sensitivity to interest and inflation effects. Note: Both yield identical results when interest and inflation are equivalent.

$$\text{FFB} = \text{Current Cost} \times \text{Effective Age} / \text{Useful Life}$$

or

$$\text{FFB} = (\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) + [(\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) / (1 + \text{Interest Rate})^{\text{Remaining Life}}] - [(\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) / (1 + \text{Inflation Rate})^{\text{Remaining Life}}]$$

FUND STATUS: The status of the reserve fund as compared to an established benchmark such as percent funding.

FUNDING GOALS: Independent of methodology utilized, the following represent the basic categories of *Funding Plan* goals:

- **Baseline Funding:** Establishing a reserve funding goal of keeping the reserve cash balance above zero.
- **Full Funding:** Setting a reserve funding goal of attaining and maintaining reserves at or near 100% funded.

- Statutory Funding: Establishing a reserve funding goal of setting aside the specific minimum amount of reserves required by local statutes.
- Threshold Funding: Establishing a reserve funding goal of keeping the *Reserve Balance* above a specified dollar or *Percent Funded* amount. Depending on the threshold, this may be more or less conservative than fully funding.

FUNDING PLAN: An association's plan to provide income to a reserve fund to offset anticipated expenditures from that fund.

FUNDING PRINCIPLES:

- Sufficient Funds When Required
- Stable Contribution Rate over the Years
- Evenly Distributed Contributions over the Years
- Fiscally Responsible

LIFE AND VALUATION ESTIMATES: The task of estimating *Useful Life*, *Remaining Useful Life*, and repair or *Replacement Costs* for the reserve *Components*.

PERCENT FUNDED: The ratio at a particular point of time (typically the beginning of the Fiscal Year) of the actual or projected *Reserve Balance* to the *Fully Funded Balance*, expressed as a percentage.

PHYSICAL ANALYSIS: The portion of the *Reserve Study* where the *Component Inventory*, *Condition Assessment*, and *Life and Valuation Estimate* tasks are performed. This represents one of the two parts of the *Reserve Study*.

REMAINING USEFUL LIFE (RUL): Also referred to as "Remaining Life" (RL). The estimated time, in years, that a reserve *Component* can be expected to continue to serve its intended function. Projects anticipated to occur in the initial year have "zero" *Remaining Useful Life*.

REPLACEMENT COST: The cost of replacing, repairing, or restoring a reserve *Component* to its original functional condition. The *Current Replacement Cost* would be the cost to replace, repair, or restore the *Component* during that particular year.

RESERVE BALANCE: Actual or projected funds as of a particular point in time that the Association has identified for use to defray the future repair or replacement of those major *Components* which the Association is obligated to maintain. Also known as reserves, reserve accounts, or cash reserves. Based upon information provided and not audited.

RESERVE PROVIDER: An individual that prepares *Reserve Studies*.

RESERVE STUDY: A budget planning tool which identifies the current status of the reserve fund and a stable and equitable *Funding Plan* to offset the anticipated future major common area expenditures. The *Reserve Study*

consists of two parts: the *Physical Analysis* and the *Financial Analysis*.

RESPONSIBLE CHARGE: A reserve specialist in *Responsible Charge* of a *Reserve Study* shall render regular and effective supervision to those individuals performing services which directly and materially affect the quality and competence rendered by the reserve specialist. A reserve specialist shall maintain such records as are reasonably necessary to establish that the reserve specialist exercised regular and effective supervision of a *Reserve Study* of which he was in *Responsible Charge*. A reserve specialist engaged in any of the following acts or practices shall be deemed not to have rendered the regular and effective supervision required herein:

- The regular and continuous absence from principal office premises from which professional services are rendered, except for performance of field work or presence in a field office maintained exclusively for a specific project;
- The failure to personally inspect or review the work of subordinates where necessary and appropriate;
- The rendering of a limited, cursory, or perfunctory review of plans or projects in lieu of an appropriate detailed review;
- The failure to personally be available on a reasonable basis or with adequate advance notice for consultation and inspection where circumstances require personal availability.

SPECIAL ASSESSMENT: An assessment levied on the members of an association in addition to regular assessments. *Special Assessments* are often regulated by governing documents or local statutes.

SURPLUS: An actual or projected *Reserve Balance* greater than the *Fully Funded Balance*. The opposite would be a *Deficit*.

USEFUL LIFE (UL): Total *Useful Life* or depreciable life. The estimated time, in years, that a *Reserve Component* can be expected to serve its intended function if properly constructed in its present application or installation.