

## **RESERVE STUDY**

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This report documents the performance of a Reserve Study by John H. Beatty & Associates for the **Round Hill Estates North Property Owners' Association**. It provides an analysis of the repair and replacement requirements for the Association's major components and recommends a funding plan to meet those obligations. This study was performed in compliance with California Civil Codes §1365 and §1365.5. The essential elements of this legislation are:

1. Identification of the major components which the Association is obligated to maintain
2. Current estimate of the useful life of each component
3. Current estimate of the remaining life of each component
4. Current estimate of the replacement cost of each component
5. Current estimate of the total Annual Reserve Contribution necessary to maintain the major components
6. Current estimate of the amount of cash reserves necessary to maintain the major components
7. Disclosure of the current amount of accumulated cash reserves actually funded
8. Disclosure of the percentage of reserves actually funded
9. Disclosure of any determined or anticipated Special Assessments
10. A general statement of methodology

### ***SCOPE***

This study is aligned with the Association's fiscal year and establishes July 1, 2001, through June 30, 2031, as the period of time for which reserve expenditures and reserve fund balances are projected.

### ***METHODOLOGY***

A cash flow methodology was used to determine the Annual Reserve Contribution. The underlying premise of this reserve funding approach is to establish a contribution level that will allow the Association to maintain a positive balance in the reserve fund while meeting all anticipated maintenance obligations. The cash flow method allows the Association to achieve this goal without the unnecessary overfunding of reserves. Based on the Association's decision to use any and all interest income derived from the Reserve Fund to offset operating costs, this additional income will not be considered.

In preparing this study, a comprehensive list of major components was developed and data was compiled on the type, number, age and cost of each of these three components. In gathering this information, certain assumptions were made about costs, conditions, and future events and circumstances which may occur. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to the date of this report. Therefore, the actual replacement costs and remaining lives may vary from this report and the variations could be material. All life expectancies were based on reasonable industry experience for equipment and material and, unless specifically noted, all components were in a reasonable and ordinary condition.

This study was limited to a visual inspection and as such did not disturb the major components. Therefore, all common areas for which there is no access without defacement are specifically omitted. However, if sufficient historical data were available that would allow a reasonable projection of future expenditures for any unobservable components e.g., plumbing or electrical wiring, that data could be included in this report.

**Since no destructive testing was undertaken, this study does nor purport to address any latent and/or patent defects, nor does it address any life expectancies which are abnormally short due to either improper design or installation, or to subsequent improper maintenance. It is assumed that all components are to be reasonably maintained for the remainder of their life expectancy.**

For a component to be included in this study, the following criteria must be met:

1. The maintenance of the component is the responsibility of the Association;
2. The maintenance of the component is not included in the Annual Operating Budget;
3. The estimated useful life of the component is greater than one year; and
4. The estimated remaining life of the component is less than 30 years.

This study is intended to reflect the estimated replacement cost of the components and is not intended to project the actual cost of the work when performed. This limitation is necessary as it is virtually impossible to predict with any degree of certainty the myriad factors that will impact costs at a future date. Because of this qualification, it is necessary for the results of this study to be reviewed annually to reflect any meaningful changes in use or significant increases in labor and/or material costs.

This study contains a 5% unscheduled or contingency funding allocation, which is a percentage of the total Annual Contribution to reserves. This fund provides for any unforeseen or out of the ordinary repair or replacement expense. Additionally, it can be used in subsequent years as a source of funds for reallocation of the life cycles should any components be abnormally accelerated.

## ***FINDINGS***

The findings of this study indicate that it will be necessary to increase the Annual Reserve Contribution by 14.5% in fiscal years 2001 through 2009 and then by 2.5% through 2030. No other increases are anticipated to be necessary in order to meet projected expenditures and keep pace with inflation. These findings are based upon the following:

1. Reserve fund balance as of July 1, 2001..... \$240,000
2. Reserve contribution for fiscal year 2001/02..... 30, 620
3. Assumed annual inflation rate..... 3.5%
4. No “after tax” interest earned on reserve fund investments will be retained in reserve fund.

# DISCLOSURES

This plan provides adequate funds to meet projected expenditures without relying on Special Assessments or increases in regular assessments that require a vote of the membership. Based on the assumption that the Association will fund reserves in accordance with this plan, which includes those increases indicated above, the percent funded was calculated in the following manner:

### Accumulated Cash Reserves (Numerator)

Reserve Balance as of July 1, 2001.....	\$240,000	
Inflated Reserve Contributions for fiscal years 2001-2031.....	<u>1,559,816</u>	
Cumulative amount of cash available to repair, replace, restore or maintain the association's major components for fiscal years 2001-2031.....		\$1,799,816

### Accumulated Reserve Obligation (Denominator)

Reserve Balances as of July 1, 2001.....	\$240,000	
Cumulative Reserve Contributions necessary to offset expenditures and inflation for fiscal years 2001-2031.....	<u>3,023,527</u>	
Cumulative amount of cash necessary to repair, replace, restore or maintain the association's major components for fiscal years 2001-2031.....		<u>\$3,263,527</u>

Percent Funded.....		55%
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This Reserve Study was reviewed and approved by the Round Hill Estates North Property Owners' Association Board of Directors.