Serving the Pacific Northwest
10900 NE 4th St, Suite 2300
Bellevue, WA 98004

Tel : (253) 661-5437
www.reservestudy.com

ASSOCIATION RESERVES™
Planning For The Inevitable™

Regional Offices
Arizona
California
Colorado
Florida
Hawaii
Nevada
North Carolina
Texas
Washington

Shadow Run at Canyon Lakes Common Areas
Kennewick, WA

SUSAN OORD
CAI-RS
00191
DESIGNATION
RESERVE SPECIALIST

Report #: 33951-2
Beginning: January 1, 2024
Expires: December 31, 2024

RESERVE STUDY
Update "No-Site-Visit"

August 8, 2023

Welcome to your Reserve Study!

A Reserve Study is a valuable tool to help you budget responsibly for your property. This report contains all the information you need to avoid surprise expenses, make informed decisions, save money, and protect property values.

Regardless of the property type, it's a fact of life that the very moment construction is completed, every major building component begins a predictable process of physical deterioration. The operative word is " predictable" because planning for the inevitable is what a Reserve Study by **Association Reserves** is all about!

In this Report, you will find three key results:

- **Component List**
  Unique to each property, the Component List serves as the foundation of the Reserve Study and details the scope and schedule of all necessary repairs & replacements.
- **Reserve Fund Strength**
  A calculation that measures how well the Reserve Fund has kept pace with the property's physical deterioration.
- **Reserve Funding Plan**
  A multi-year funding plan based on current Reserve Fund strength that allows for component repairs and replacements to be completed in a timely manner, with an emphasis on fairness and avoiding "catch-up" funding.

Questions?

Please contact your Project Manager directly.

www.reservestudy.com

Table of Contents

Reserve Study Executive Summary — No-Site-Visit

Shadow Run at Canyon Lakes - Common Areas Report #: **33951-2**
Kennewick, WA # of Units: 197
Level of Service: **Update "No-Site-Visit"** **January 1, 2024** through **December 31, 2024**

Findings & Recommendations as of January 1, 2024

Starting Reserve Balance	**$92,864**
Current Fully Funded Reserve Balance	**$175,598**
Percent Funded	**52.9 %**
Average Reserve (Deficit) or Surplus Per Unit	**($420)**
Recommended 2024 100% Annual "Full Funding" Contributions	**$19,410**
Recommended 2024 70% Annual "Threshold Funding" Contributions	**$17,350**
2024 "Baseline Funding" minimum to keep Reserves above $0	**$15,850**
Most Recent Budgeted Contribution Rate	**$15,588**

Reserve Fund Strength: 52.9%

Weak	Fair	Strong
< 30%	< 70%	> 130%
	X	

Risk of Special Assessment: High | Medium | Low

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves	**1.00 %**
Annual Inflation Rate	**3.00 %**

• This is a Update "No-Site-Visit", meeting all requirements of the Revised Code of Washington (RCW). This study was prepared by, or under the supervision of a credentialed Reserve Specialist (RS™).

• Your Reserve Fund is currently 52.9 % Funded. This means the association's special assessment & deferred maintenance risk is currently Medium. The objective of your multi-year Funding Plan is to fund your Reserves to a level where you will enjoy a low risk of such Reserve cash flow problems. The current annual deterioration of your reserve components is $14,366 - see Component Significance table.

• Based on this starting point and your anticipated future expenses, our recommendation is to budget Reserve Contributions to within the 70% to 100% range as noted above. The 100% "Full" and 70% contribution rates are designed to gradually achieve these funding objectives by the end of our 30-year report scope.

• No assets appropriate for Reserve designation known to be excluded. See appendix for component information and the basis of our assumptions. "Baseline Funding" in this report is as defined within the RCW, "to maintain the reserve account balance above zero throughout the thirty-year study period, without special assessments." Funding plan contribution rates, and reserves deficit or (surplus) are presented as an aggregate total, assuming average percentage of ownership. The actual ownership allocation may vary - refer to your governing documents, and assessment computational tools to adjust for any variation.

#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost
	Inventory Appendix			
100	Concrete - Repair/Replace	10	4	$2,900
140	Wood Fence - Replace	20	10	$102,600
141	Wood Fence - Stain	5	0	$9,300
170	Landscape - Refurbish	5	0	$4,650
175	Irrigation System - Repair/Replace	5	0	$2,900
200	Monument Signage - Replace	25	5	$5,150
205	Mailboxes - Replace	25	1	$33,000
340	Play Equipment - Replace (a)	25	15	$40,450
340	Play Equipment - Replace (b)	25	2	$50,000
346	Site Furniture - Replace (a)	25	18	$3,450
346	Site Furniture - Replace (b)	25	2	$7,350
11	**Total Funded Components**			

Note 1: Yellow highlighted line items are expected to require attention in this initial year, light blue highlighted items are expected to occur within the first-five years.

Introduction

A Reserve Study is the art and science of anticipating, and preparing for, an association's major common area repair and replacement expenses. Partially art, because in this field we are making projections about the future. Partially science, because our work is a combination of research and well-defined computations, following consistent National Reserve Study Standard principles.

The foundation of this and every Reserve Study is your Reserve Component List (what you are reserving for). This is because the Reserve Component List defines the *scope and schedule* of all your anticipated upcoming Reserve projects. Based on that List and your starting balance, we calculate the association's Reserve Fund Strength (reported in terms of "Percent Funded"). Then we compute a Reserve Funding Plan to provide for the Reserve needs of the association. These form the three results of your Reserve Study.

RESERVE STUDY RESULTS

Reserve contributions are not “for the future”. Reserve contributions are designed to offset the ongoing, daily deterioration of your Reserve assets. Done well, a stable, budgeted Reserve Funding Plan will collect sufficient funds from the owners who enjoyed the use of those assets, so the association is financially prepared for the irregular expenditures scattered through future years when those projects eventually require replacement.

Methodology

For this Update No-Site-Visit Reserve Study, we started with a review of your prior Reserve Study, then looked into recent Reserve expenditures, evaluated how expenditures are handled (ongoing maintenance vs Reserves), and researched any well-established association precedents. We updated and adjusted your Reserve Component List on the basis of time elapsed since the last Reserve Study and interviews with association representatives.

Which Physical Assets are Funded by Reserves?

RESERVE COMPONENT "FOUR-PART TEST"

There is a national-standard four-part test to determine which expenses should appear in your Reserve Component List. First, it must be a common area maintenance responsibility. Second, the component must have a limited life. Third, the remaining life must be predictable (or it by definition is a *surprise* which cannot be accurately anticipated). Fourth, the component must be above a minimum threshold cost (often between .5% and 1% of an association's total budget). This limits Reserve Components to major, predictable expenses. Within this framework, it is inappropriate to include *lifetime* components, unpredictable expenses (such as damage due to fire, flood, or earthquake), and expenses more appropriately handled from the Operational Budget or as an insured loss.

How do we establish Useful Life and Remaining Useful Life estimates?

1) Visual Inspection (observed wear and age)
2) Association Reserves database of experience
3) Client History (install dates & previous life cycle information)
4) Vendor Evaluation and Recommendation

How do we establish Current Repair/Replacement Cost Estimates?

In this order...

1) Actual client cost history, or current proposals
2) Comparison to Association Reserves database of work done at similar associations
3) Vendor Recommendations
4) Reliable National Industry cost estimating guidebooks

How much Reserves are enough?

Reserve adequacy is not measured in cash terms. Reserve adequacy is found when the *amount* of current Reserve cash is compared to Reserve component deterioration (the *needs of the association*). Having *enough* means the association can execute its projects in a timely manner with existing Reserve funds. Not having *enough* typically creates deferred maintenance or special assessments.

Adequacy is measured in a two-step process:

1) Calculate the *value of deterioration* at the association (called Fully Funded Balance, or FFB).
2) Compare that to the Reserve Fund Balance, and express as a percentage.

Each year, the *value of deterioration* at the association changes. When there is more deterioration (as components approach the time they need to be replaced), there should be more cash to offset that deterioration and prepare for the expenditure. Conversely, the *value of deterioration* shrinks after projects are accomplished. The *value of deterioration* (the FFB) changes each year, and is a moving but predictable target.

There is a high risk of special assessments and deferred maintenance when the Percent Funded is *weak*, below 30%. Approximately 30% of all associations are in this high risk range. While the 100% point is Ideal (indicating Reserve cash is equal to the *value of deterioration*), a Reserve Fund in the 70% - 130% range is considered strong (low risk of special assessment).

Measuring your Reserves by Percent Funded tells how well prepared your association is for upcoming Reserve expenses. New buyers should be very aware of this important disclosure!

How much should we contribute?

RESERVE FUNDING PRINCIPLES

According to National Reserve Study Standards, there are four Funding Principles to balance in developing your Reserve Funding Plan. Our first objective is to design a plan that provides you with sufficient cash to perform your Reserve projects on time. Second, a stable contribution is desirable because it keeps these naturally irregular expenses from unsettling the budget.

Reserve contributions that are evenly distributed over current and future owners enable each owner to pay their fair share of the association's Reserve expenses over the years. And finally, we develop a plan that is fiscally responsible and safe for Boardmembers to recommend to their association. Remember, it is the Board's job to provide for the ongoing care of the common areas. Boardmembers invite liability exposure when Reserve contributions are inadequate to offset ongoing common area deterioration.

What is our Recommended Funding Goal?

Maintaining the Reserve Fund at a level equal to the *value* of deterioration is called "Full Funding" (100% Funded). As each asset ages and becomes "used up," the Reserve Fund grows proportionally. **This is simple, responsible, and our recommendation.** Evidence shows that associations in the 70 - 130% range *enjoy a low risk of special assessments or deferred maintenance.*

FUNDING OBJECTIVES

Allowing the Reserves to fall close to zero, but not below zero, is called Baseline Funding. Doing so allows the Reserve Fund to drop into the 0 - 30% range, where there is a high risk of special assessments & deferred maintenance. Since Baseline Funding still provides for the timely execution of all Reserve projects, and only the "margin of safety" is different, Baseline Funding contributions average only 10% - 15% less than Full Funding contributions. Threshold Funding is the title of all other Cash or Percent Funded objectives *between* Baseline Funding and Full Funding.

Projected Expenses

While this Reserve Study looks forward 30 years, we have no expectation that all these expenses will all take place as anticipated. This Reserve Study needs to be updated annually because we expect the timing of these expenses to shift and the size of these expenses to change. We do feel more certain of the timing and cost of near-term expenses than expenses many years away.

The figure below summarizes the projected future expenses at your association as defined by your Reserve Component List. A summary of these expenses are shown in the 30-yr Summary Table, while details of the projects that make up these expenses are shown in the Cash Flow Detail Table.

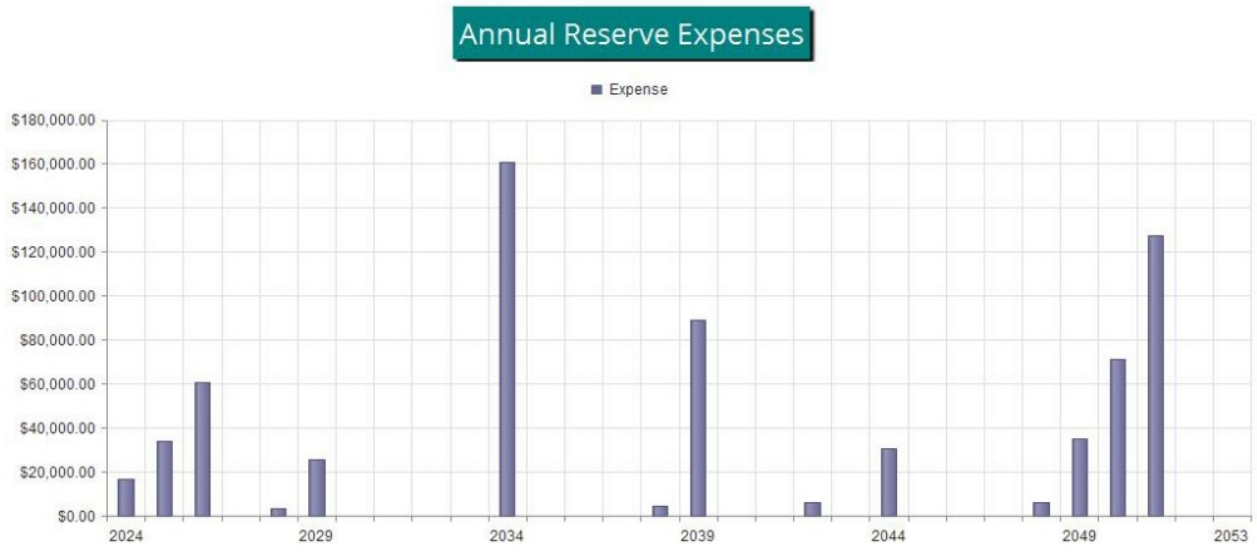


Figure 1

Reserve Fund Status

The starting point for our financial analysis is your Reserve Fund balance, projected to be $92,864 as-of the start of your Fiscal Year on 1/1/2024. As of that date, your Fully Funded Balance is computed to be $175,598 (see Fully Funded Balance Table). This figure represents the deteriorated value of your common area components.

Recommended Funding Plan

Based on your current Percent Funded and your near-term and long-term Reserve needs, we are recommending budgeted contributions of $19,410 per year this Fiscal Year. The overall 30-yr plan, in perspective, is shown below. This same information is shown numerically in both the 30-yr Summary Table and the Cash Flow Detail Table.

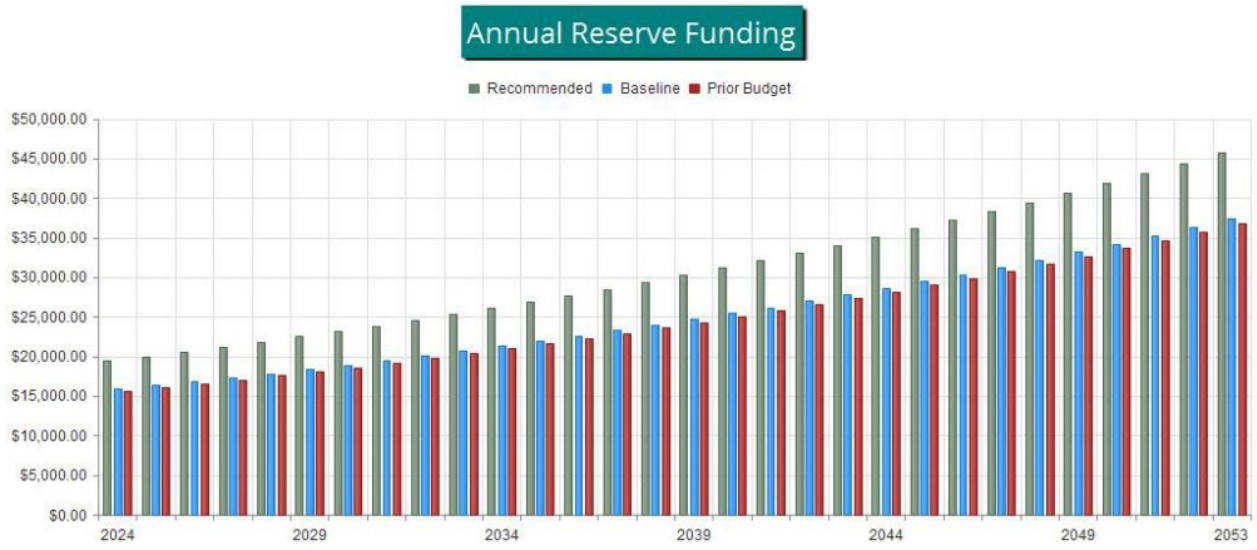


Figure 2

The following chart shows your Reserve balance under our recommended Full Funding Plan, an alternate Baseline Funding Plan, and at your current budgeted contribution rate (assumes future increases), compared to your always-changing Fully Funded Balance target.

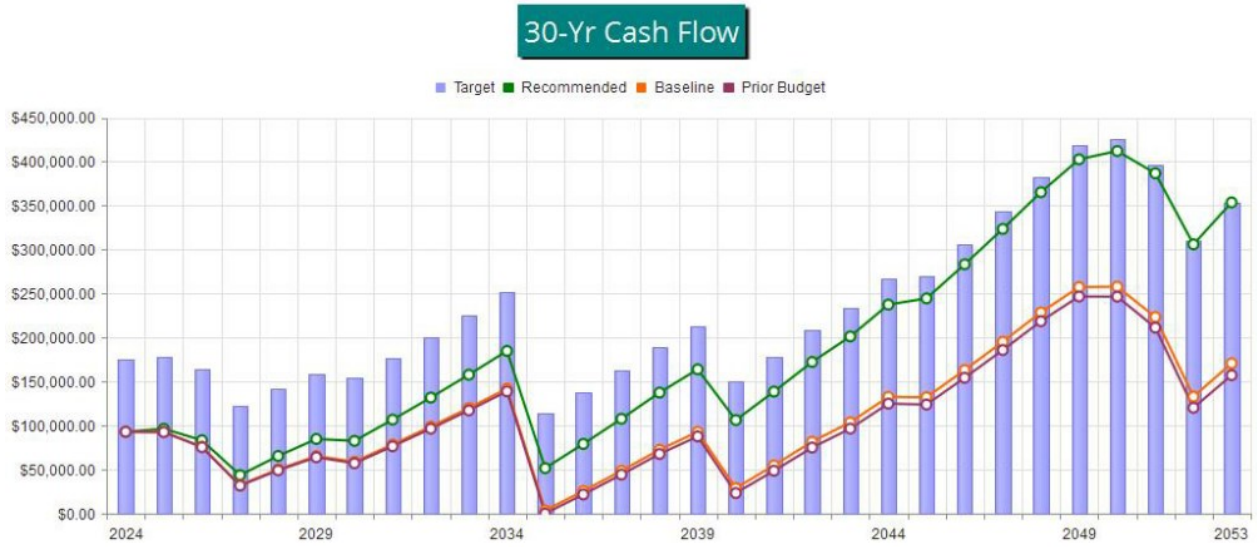


Figure 3

This figure shows the same information plotted on a Percent Funded scale. It is clear here to see how your Reserve Fund strength approaches the 100% Funded level under our recommended multi-yr Funding Plan.

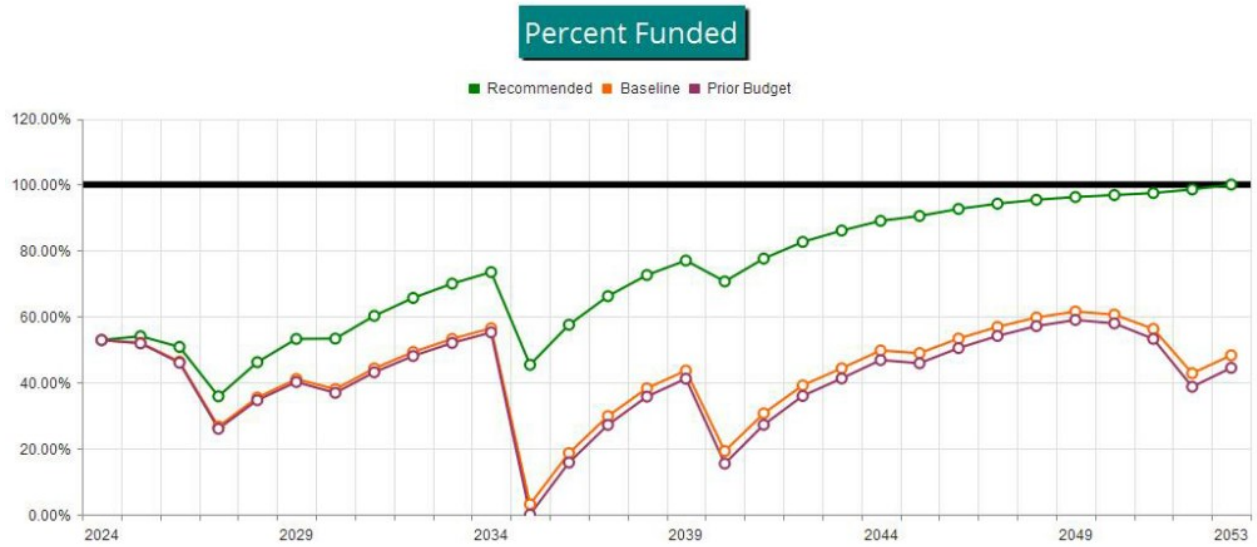


Figure 4

Table Descriptions

Executive Summary is a summary of your Reserve Components

Reserve Component List Detail discloses key Component information, providing the foundation upon which the financial analysis is performed.

Fully Funded Balance shows the calculation of the Fully Funded Balance for each of your components, and their contributions to the property total. For each component, the Fully Funded Balance is the fraction of life used up multiplied by its estimated Current Replacement Cost.

Component Significance shows the relative significance of each component to Reserve funding needs of the property, helping you see which components have more (or less) influence than others on your total Reserve contribution rate. The deterioration cost/yr of each component is calculated by dividing the estimated Current Replacement Cost by its Useful Life, then that component's percentage of the total is displayed.

30-Yr Reserve Plan Summary provides a one-page 30-year summary of the cash flowing into and out of the Reserve Fund, with a display of the Fully Funded Balance, Percent Funded, and special assessment risk at the beginning of each year.

30-Year Income/Expense Detail shows the detailed income and expenses for each of the next 30 years. This table makes it possible to see which components are projected to require repair or replacement in a particular year, and the size of those individual expenses.

#	Component	Quantity	Useful Life	Rem. Useful Life	Current Cost Estimate	
					Best Case	Worst Case
	Inventory Appendix					
100	Concrete - Repair/Replace	Sidewalks, etc.	10	4	$2,300	$3,500
140	Wood Fence - Replace	~ 3,250 LF 6' tall wood	20	10	$85,200	$120,000
141	Wood Fence - Stain	~ 3,250 LF 6' tall wood	5	0	$8,200	$10,400
170	Landscape - Refurbish	Trees, shrubs, turf	5	0	$3,500	$5,800
175	Irrigation System - Repair/Replace	Extensive system	5	0	$2,300	$3,500
200	Monument Signage - Replace	~ (1) masonry, (1) rock	25	5	$4,000	$6,300
205	Mailboxes - Replace	~ (14) mail, (1) parcel	25	1	$30,000	$36,000
340	Play Equipment - Replace (a)	~ (1) metal (1) tireswing	25	15	$35,000	$45,900
340	Play Equipment - Replace (b)	~ (1) metal, (1) swing	25	2	$40,000	$60,000
346	Site Furniture - Replace (a)	~ (3) picnic tables	25	18	$2,700	$4,200
346	Site Furniture - Replace (b)	~ (9) assorted	25	2	$6,900	$7,800
11	Total Funded Components					

#	Component	Current Cost Estimate	X	Effective Age	/	Useful Life	=	Fully Funded Balance
	Inventory Appendix							
100	Concrete - Repair/Replace	$2,900	X	6	/	10	=	$1,740
140	Wood Fence - Replace	$102,600	X	10	/	20	=	$51,300
141	Wood Fence - Stain	$9,300	X	5	/	5	=	$9,300
170	Landscape - Refurbish	$4,650	X	5	/	5	=	$4,650
175	Irrigation System - Repair/Replace	$2,900	X	5	/	5	=	$2,900
200	Monument Signage - Replace	$5,150	X	20	/	25	=	$4,120
205	Mailboxes - Replace	$33,000	X	24	/	25	=	$31,680
340	Play Equipment - Replace (a)	$40,450	X	10	/	25	=	$16,180
340	Play Equipment - Replace (b)	$50,000	X	23	/	25	=	$46,000
346	Site Furniture - Replace (a)	$3,450	X	7	/	25	=	$966
346	Site Furniture - Replace (b)	$7,350	X	23	/	25	=	$6,762
								$175,598

#	Component	Useful Life (yrs)	Current Cost Estimate	Deterioration Cost/Yr	Deterioration Significance
	Inventory Appendix				
100	Concrete - Repair/Replace	10	$2,900	$290	2.02 %
140	Wood Fence - Replace	20	$102,600	$5,130	35.71 %
141	Wood Fence - Stain	5	$9,300	$1,860	12.95 %
170	Landscape - Refurbish	5	$4,650	$930	6.47 %
175	Irrigation System - Repair/Replace	5	$2,900	$580	4.04 %
200	Monument Signage - Replace	25	$5,150	$206	1.43 %
205	Mailboxes - Replace	25	$33,000	$1,320	9.19 %
340	Play Equipment - Replace (a)	25	$40,450	$1,618	11.26 %
340	Play Equipment - Replace (b)	25	$50,000	$2,000	13.92 %
346	Site Furniture - Replace (a)	25	$3,450	$138	0.96 %
346	Site Furniture - Replace (b)	25	$7,350	$294	2.05 %
11	Total Funded Components			$14,366	100.00 %

30-Year Reserve Plan Summary

Report # 33951-2
No-Site-Visit

Fiscal Year Start: 2024	Interest: 1.00 %	Inflation: 3.00 %

Reserve Fund Strength: as-of Fiscal Year Start Date					Projected Reserve Balance Changes				
Year	Starting Reserve Balance	Fully Funded Balance	Percent Funded	Special Assmt Risk	% Increase In Annual Reserve Funding	Reserve Funding	Loan or Special Assmts	Interest Income	Reserve Expenses
2024	$92,864	$175,598	52.9 %	Medium	24.52 %	$19,410	$0	$946	$16,850
2025	$96,369	$178,307	54.0 %	Medium	3.00 %	$19,992	$0	$898	$33,990
2026	$83,270	$163,888	50.8 %	Medium	3.00 %	$20,592	$0	$634	$60,843
2027	$43,653	$121,835	35.8 %	Medium	3.00 %	$21,210	$0	$545	$0
2028	$65,408	$141,659	46.2 %	Medium	3.00 %	$21,846	$0	$750	$3,264
2029	$84,741	$159,201	53.2 %	Medium	3.00 %	$22,502	$0	$836	$25,504
2030	$82,575	$154,861	53.3 %	Medium	3.00 %	$23,177	$0	$946	$0
2031	$106,697	$177,176	60.2 %	Medium	3.00 %	$23,872	$0	$1,192	$0
2032	$131,761	$200,689	65.7 %	Medium	3.00 %	$24,588	$0	$1,447	$0
2033	$157,796	$225,454	70.0 %	Medium	3.00 %	$25,326	$0	$1,712	$0
2034	$184,834	$251,525	73.5 %	Low	3.00 %	$26,085	$0	$1,182	$160,531
2035	$51,570	$113,610	45.4 %	Medium	3.00 %	$26,868	$0	$653	$0
2036	$79,091	$137,500	57.5 %	Medium	3.00 %	$27,674	$0	$934	$0
2037	$107,699	$162,722	66.2 %	Medium	3.00 %	$28,504	$0	$1,225	$0
2038	$137,428	$189,334	72.6 %	Low	3.00 %	$29,359	$0	$1,506	$4,387
2039	$163,907	$212,878	77.0 %	Low	3.00 %	$30,240	$0	$1,350	$89,272
2040	$106,226	$150,367	70.6 %	Low	3.00 %	$31,147	$0	$1,224	$0
2041	$138,597	$178,623	77.6 %	Low	3.00 %	$32,082	$0	$1,553	$0
2042	$172,232	$208,439	82.6 %	Low	3.00 %	$33,044	$0	$1,867	$5,873
2043	$201,269	$233,834	86.1 %	Low	3.00 %	$34,036	$0	$2,193	$0
2044	$237,498	$266,795	89.0 %	Low	3.00 %	$35,057	$0	$2,409	$30,433
2045	$244,531	$270,178	90.5 %	Low	3.00 %	$36,108	$0	$2,638	$0
2046	$283,277	$305,810	92.6 %	Low	3.00 %	$37,192	$0	$3,033	$0
2047	$323,501	$343,337	94.2 %	Low	3.00 %	$38,307	$0	$3,442	$0
2048	$365,251	$382,840	95.4 %	Low	3.00 %	$39,457	$0	$3,838	$5,895
2049	$402,650	$418,333	96.3 %	Low	3.00 %	$40,640	$0	$4,072	$35,280
2050	$412,082	$425,526	96.8 %	Low	3.00 %	$41,859	$0	$3,993	$71,168
2051	$386,766	$396,900	97.4 %	Low	3.00 %	$43,115	$0	$3,462	$127,391
2052	$305,953	$310,463	98.5 %	Low	3.00 %	$44,409	$0	$3,297	$0
2053	$353,658	$353,631	100.0 %	Low	3.00 %	$45,741	$0	$3,783	$0

30-Year Reserve Plan Summary (Alternate Funding Plan)

Report # 33951-2
No-Site-Visit

Fiscal Year Start: 2024	Interest: 1.00 %	Inflation: 3.00 %

Reserve Fund Strength: as-of Fiscal Year Start Date					Projected Reserve Balance Changes				
Year	Starting Reserve Balance	Fully Funded Balance	Percent Funded	Special Assmt Risk	% Increase In Annual Reserve Funding	Reserve Funding	Loan or Special Assmts	Interest Income	Reserve Expenses
2024	$92,864	$175,598	52.9 %	Medium	1.68 %	$15,850	$0	$928	$16,850
2025	$92,792	$178,307	52.0 %	Medium	3.00 %	$16,326	$0	$843	$33,990
2026	$75,971	$163,888	46.4 %	Medium	3.00 %	$16,815	$0	$542	$60,843
2027	$32,485	$121,835	26.7 %	High	3.00 %	$17,320	$0	$413	$0
2028	$50,218	$141,659	35.5 %	Medium	3.00 %	$17,839	$0	$578	$3,264
2029	$65,371	$159,201	41.1 %	Medium	3.00 %	$18,374	$0	$621	$25,504
2030	$58,863	$154,861	38.0 %	Medium	3.00 %	$18,926	$0	$686	$0
2031	$78,475	$177,176	44.3 %	Medium	3.00 %	$19,494	$0	$886	$0
2032	$98,855	$200,689	49.3 %	Medium	3.00 %	$20,078	$0	$1,094	$0
2033	$120,027	$225,454	53.2 %	Medium	3.00 %	$20,681	$0	$1,310	$0
2034	$142,017	$251,525	56.5 %	Medium	3.00 %	$21,301	$0	$727	$160,531
2035	$3,515	$113,610	3.1 %	High	3.00 %	$21,940	$0	$146	$0
2036	$25,600	$137,500	18.6 %	High	3.00 %	$22,598	$0	$371	$0
2037	$48,569	$162,722	29.8 %	High	3.00 %	$23,276	$0	$605	$0
2038	$72,451	$189,334	38.3 %	Medium	3.00 %	$23,975	$0	$826	$4,387
2039	$92,865	$212,878	43.6 %	Medium	3.00 %	$24,694	$0	$609	$89,272
2040	$28,896	$150,367	19.2 %	High	3.00 %	$25,435	$0	$418	$0
2041	$54,748	$178,623	30.7 %	Medium	3.00 %	$26,198	$0	$682	$0
2042	$81,627	$208,439	39.2 %	Medium	3.00 %	$26,984	$0	$926	$5,873
2043	$103,664	$233,834	44.3 %	Medium	3.00 %	$27,793	$0	$1,181	$0
2044	$132,638	$266,795	49.7 %	Medium	3.00 %	$28,627	$0	$1,323	$30,433
2045	$132,155	$270,178	48.9 %	Medium	3.00 %	$29,486	$0	$1,476	$0
2046	$163,116	$305,810	53.3 %	Medium	3.00 %	$30,370	$0	$1,791	$0
2047	$195,278	$343,337	56.9 %	Medium	3.00 %	$31,281	$0	$2,119	$0
2048	$228,678	$382,840	59.7 %	Medium	3.00 %	$32,220	$0	$2,430	$5,895
2049	$257,432	$418,333	61.5 %	Medium	3.00 %	$33,186	$0	$2,576	$35,280
2050	$257,914	$425,526	60.6 %	Medium	3.00 %	$34,182	$0	$2,405	$71,168
2051	$223,334	$396,900	56.3 %	Medium	3.00 %	$35,207	$0	$1,781	$127,391
2052	$132,931	$310,463	42.8 %	Medium	3.00 %	$36,264	$0	$1,518	$0
2053	$170,712	$353,631	48.3 %	Medium	3.00 %	$37,352	$0	$1,903	$0

	Fiscal Year	2024	2025	2026	2027	2028
	Starting Reserve Balance	$92,864	$96,369	$83,270	$43,653	$65,408
	Annual Reserve Funding	$19,410	$19,992	$20,592	$21,210	$21,846
	Recommended Special Assessments	$0	$0	$0	$0	$0
	Interest Earnings	$946	$898	$634	$545	$750
	Total Income	$113,219	$117,260	$104,496	$65,408	$88,005
#	Component					
	Inventory Appendix					
100	Concrete - Repair/Replace	$0	$0	$0	$0	$3,264
140	Wood Fence - Replace	$0	$0	$0	$0	$0
141	Wood Fence - Stain	$9,300	$0	$0	$0	$0
170	Landscape - Refurbish	$4,650	$0	$0	$0	$0
175	Irrigation System - Repair/Replace	$2,900	$0	$0	$0	$0
200	Monument Signage - Replace	$0	$0	$0	$0	$0
205	Mailboxes - Replace	$0	$33,990	$0	$0	$0
340	Play Equipment - Replace (a)	$0	$0	$0	$0	$0
340	Play Equipment - Replace (b)	$0	$0	$53,045	$0	$0
346	Site Furniture - Replace (a)	$0	$0	$0	$0	$0
346	Site Furniture - Replace (b)	$0	$0	$7,798	$0	$0
	Total Expenses	$16,850	$33,990	$60,843	$0	$3,264
	Ending Reserve Balance	$96,369	$83,270	$43,653	$65,408	$84,741

	Fiscal Year	2029	2030	2031	2032	2033
	Starting Reserve Balance	$84,741	$82,575	$106,697	$131,761	$157,796
	Annual Reserve Funding	$22,502	$23,177	$23,872	$24,588	$25,326
	Recommended Special Assessments	$0	$0	$0	$0	$0
	Interest Earnings	$836	$946	$1,192	$1,447	$1,712
	Total Income	$108,079	$106,697	$131,761	$157,796	$184,834
#	Component					
	Inventory Appendix					
100	Concrete - Repair/Replace	$0	$0	$0	$0	$0
140	Wood Fence - Replace	$0	$0	$0	$0	$0
141	Wood Fence - Stain	$10,781	$0	$0	$0	$0
170	Landscape - Refurbish	$5,391	$0	$0	$0	$0
175	Irrigation System - Repair/Replace	$3,362	$0	$0	$0	$0
200	Monument Signage - Replace	$5,970	$0	$0	$0	$0
205	Mailboxes - Replace	$0	$0	$0	$0	$0
340	Play Equipment - Replace (a)	$0	$0	$0	$0	$0
340	Play Equipment - Replace (b)	$0	$0	$0	$0	$0
346	Site Furniture - Replace (a)	$0	$0	$0	$0	$0
346	Site Furniture - Replace (b)	$0	$0	$0	$0	$0
	Total Expenses	$25,504	$0	$0	$0	$0
	Ending Reserve Balance	$82,575	$106,697	$131,761	$157,796	$184,834

	Fiscal Year	2034	2035	2036	2037	2038
	Starting Reserve Balance	$184,834	$51,570	$79,091	$107,699	$137,428
	Annual Reserve Funding	$26,085	$26,868	$27,674	$28,504	$29,359
	Recommended Special Assessments	$0	$0	$0	$0	$0
	Interest Earnings	$1,182	$653	$934	$1,225	$1,506
	Total Income	$212,101	$79,091	$107,699	$137,428	$168,293
#	Component					
	Inventory Appendix					
100	Concrete - Repair/Replace	$0	$0	$0	$0	$4,387
140	Wood Fence - Replace	$137,886	$0	$0	$0	$0
141	Wood Fence - Stain	$12,498	$0	$0	$0	$0
170	Landscape - Refurbish	$6,249	$0	$0	$0	$0
175	Irrigation System - Repair/Replace	$3,897	$0	$0	$0	$0
200	Monument Signage - Replace	$0	$0	$0	$0	$0
205	Mailboxes - Replace	$0	$0	$0	$0	$0
340	Play Equipment - Replace (a)	$0	$0	$0	$0	$0
340	Play Equipment - Replace (b)	$0	$0	$0	$0	$0
346	Site Furniture - Replace (a)	$0	$0	$0	$0	$0
346	Site Furniture - Replace (b)	$0	$0	$0	$0	$0
	Total Expenses	$160,531	$0	$0	$0	$4,387
	Ending Reserve Balance	$51,570	$79,091	$107,699	$137,428	$163,907

	Fiscal Year	2039	2040	2041	2042	2043
	Starting Reserve Balance	$163,907	$106,226	$138,597	$172,232	$201,269
	Annual Reserve Funding	$30,240	$31,147	$32,082	$33,044	$34,036
	Recommended Special Assessments	$0	$0	$0	$0	$0
	Interest Earnings	$1,350	$1,224	$1,553	$1,867	$2,193
	Total Income	$195,497	$138,597	$172,232	$207,143	$237,498
#	Component					
	Inventory Appendix					
100	Concrete - Repair/Replace	$0	$0	$0	$0	$0
140	Wood Fence - Replace	$0	$0	$0	$0	$0
141	Wood Fence - Stain	$14,489	$0	$0	$0	$0
170	Landscape - Refurbish	$7,245	$0	$0	$0	$0
175	Irrigation System - Repair/Replace	$4,518	$0	$0	$0	$0
200	Monument Signage - Replace	$0	$0	$0	$0	$0
205	Mailboxes - Replace	$0	$0	$0	$0	$0
340	Play Equipment - Replace (a)	$63,020	$0	$0	$0	$0
340	Play Equipment - Replace (b)	$0	$0	$0	$0	$0
346	Site Furniture - Replace (a)	$0	$0	$0	$5,873	$0
346	Site Furniture - Replace (b)	$0	$0	$0	$0	$0
	Total Expenses	$89,272	$0	$0	$5,873	$0
	Ending Reserve Balance	$106,226	$138,597	$172,232	$201,269	$237,498

	Fiscal Year	2044	2045	2046	2047	2048
	Starting Reserve Balance	$237,498	$244,531	$283,277	$323,501	$365,251
	Annual Reserve Funding	$35,057	$36,108	$37,192	$38,307	$39,457
	Recommended Special Assessments	$0	$0	$0	$0	$0
	Interest Earnings	$2,409	$2,638	$3,033	$3,442	$3,838
	Total Income	$274,964	$283,277	$323,501	$365,251	$408,545
#	Component					
	Inventory Appendix					
100	Concrete - Repair/Replace	$0	$0	$0	$0	$5,895
140	Wood Fence - Replace	$0	$0	$0	$0	$0
141	Wood Fence - Stain	$16,797	$0	$0	$0	$0
170	Landscape - Refurbish	$8,398	$0	$0	$0	$0
175	Irrigation System - Repair/Replace	$5,238	$0	$0	$0	$0
200	Monument Signage - Replace	$0	$0	$0	$0	$0
205	Mailboxes - Replace	$0	$0	$0	$0	$0
340	Play Equipment - Replace (a)	$0	$0	$0	$0	$0
340	Play Equipment - Replace (b)	$0	$0	$0	$0	$0
346	Site Furniture - Replace (a)	$0	$0	$0	$0	$0
346	Site Furniture - Replace (b)	$0	$0	$0	$0	$0
	Total Expenses	$30,433	$0	$0	$0	$5,895
	Ending Reserve Balance	$244,531	$283,277	$323,501	$365,251	$402,650

	Fiscal Year	2049	2050	2051	2052	2053
	Starting Reserve Balance	$402,650	$412,082	$386,766	$305,953	$353,658
	Annual Reserve Funding	$40,640	$41,859	$43,115	$44,409	$45,741
	Recommended Special Assessments	$0	$0	$0	$0	$0
	Interest Earnings	$4,072	$3,993	$3,462	$3,297	$3,783
	Total Income	$447,362	$457,934	$433,344	$353,658	$403,182
#	Component					
	Inventory Appendix					
100	Concrete - Repair/Replace	$0	$0	$0	$0	$0
140	Wood Fence - Replace	$0	$0	$0	$0	$0
141	Wood Fence - Stain	$19,472	$0	$0	$0	$0
170	Landscape - Refurbish	$9,736	$0	$0	$0	$0
175	Irrigation System - Repair/Replace	$6,072	$0	$0	$0	$0
200	Monument Signage - Replace	$0	$0	$0	$0	$0
205	Mailboxes - Replace	$0	$71,168	$0	$0	$0
340	Play Equipment - Replace (a)	$0	$0	$0	$0	$0
340	Play Equipment - Replace (b)	$0	$0	$111,064	$0	$0
346	Site Furniture - Replace (a)	$0	$0	$0	$0	$0
346	Site Furniture - Replace (b)	$0	$0	$16,326	$0	$0
	Total Expenses	$35,280	$71,168	$127,391	$0	$0
	Ending Reserve Balance	$412,082	$386,766	$305,953	$353,658	$403,182

Accuracy, Limitations, and Disclosures

"The 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 you to pay on demand as a special assessment your share of common expenses for the cost of major maintenance, repair or replacement of a reserve component."

Association Reserves and its employees have no ownership, management, or other business relationships with the client other than this Reserve Study engagement. Christian Colunga, company President, is a credentialed Reserve Specialist (#208). All work done by Association Reserves WA, LLC is performed under his responsible charge and is performed in accordance with National Reserve Study Standards (NRSS). There are no material issues to our knowledge that have not been disclosed to the client that would cause a distortion of the client's situation.

Per NRSS, information provided by official representative(s) of the client, vendors, and suppliers regarding financial details, component physical details and/or quantities, or historical issues/conditions will be deemed reliable, and is not intended to be used for the purpose of any type of audit, quality/forensic analysis, or background checks of historical records. As such, information provided to us has not been audited or independently verified.

Estimates for interest and inflation have been included, because including such estimates are more accurate than ignoring them completely. When we are hired to prepare Update reports, the client is considered to have deemed those previously developed component quantities as accurate and reliable, whether established by our firm or other individuals/firms (unless specifically mentioned in our Site Inspection Notes). During inspections our company standard is to establish measurements within 5% accuracy, and our scope includes visual inspection of accessible areas and components and does not include any destructive or other testing. Our work is done only for budget purposes. Uses or expectations outside our expertise and scope of work include, but are not limited to: project audit, quality inspection, and the identification of construction defects, hazardous materials, or dangerous conditions. Identifying hidden issues such as but not limited to, plumbing or electrical problems are also outside our scope of work. Our estimates assume proper original installation & construction, adherence to recommended preventive maintenance, a stable economic environment, and do not consider frequency or severity of natural disasters. Our opinions of component Useful Life, Remaining Useful Life, and current or future cost estimates are not a warranty or guarantee of actual costs or timing.

Because the physical and financial status of the property, legislation, the economy, weather, owner expectations, and usage are all in a continual state of change over which we have no control, we do not expect that the events projected in this document will all occur exactly as planned. This Reserve Study is by nature a "one-year" document in need of being updated annually so that more accurate estimates can be incorporated. It is only because a long-term perspective improves the accuracy of near-term planning that this Report projects expenses into the future. We fully expect a number of adjustments will be necessary through the interim years to the cost and timing of expense projections and the funding necessary to prepare for those estimated expenses.

In this engagement our compensation is not contingent upon our conclusions, and our liability in any matter involving this Reserve Study is limited to our fee for services rendered.

Terms and Definitions

BTU	British Thermal Unit (a standard unit of energy)
DIA	Diameter
GSF	Gross Square Feet (area). Equivalent to Square Feet
GSY	Gross Square Yards (area). Equivalent to Square Yards
HP	Horsepower
LF	Linear Feet (length)
Effective Age	The difference between Useful Life and Remaining Useful Life. Note that this is not necessarily equivalent to the chronological age of the component.
Fully Funded Balance (FFB)	The value of the deterioration of the Reserve Components. This is the fraction of life "used up" of each component multiplied by its estimated Current Replacement. While calculated for each component, it is summed together for an association total.
Inflation	Cost factors are adjusted for inflation at the rate defined in the Executive Summary and compounded annually. These increasing costs can be seen as you follow the recurring cycles of a component on the "30-yr Income/Expense Detail" table.
Interest	Interest earnings on Reserve Funds are calculated using the average balance for the year (taking into account income and expenses through the year) and compounded monthly using the rate defined in the Executive Summary. Annual interest earning assumption appears in the Executive Summary.
Percent Funded	The ratio, at a particular point in time (the first day of the Fiscal Year), of the actual (or projected) Reserve Balance to the Fully Funded Balance, expressed as a percentage.
Remaining Useful Life (RUL)	The estimated time, in years, that a common area component can be expected to continue to serve its intended function.
Useful Life (UL)	The estimated time, in years, that a common area component can be expected to serve its intended function.

Component Details

The primary purpose of the Component Details appendix is to provide the reader with the basis of our funding assumptions resulting from our research and analysis. The information presented here represents a wide range of components that were observed and measured against National Reserve Study Standards to determine if they meet the criteria for reserve funding.

1) Common area repair & replacement responsibility
2) Component must have a limited useful life
3) Life limit must be predictable
4) Above a minimum threshold cost (board's discretion – typically ½ to 1% of Annual operating expenses).

Not all your components may have been found appropriate for reserve funding. In our judgment, the components meeting the above four criteria are shown with the Useful Life (how often the project is expected to occur), Remaining Useful Life (when the next instance of the expense will be) and representative market cost range termed "Best Cost" and "Worst Cost". There are many factors that can result in a wide variety of potential costs, and we have attempted to present the cost range in which your actual expense will occur.

Where no Useful Life, Remaining Useful Life, or pricing exists, the component was deemed inappropriate for Reserve Funding.

Inventory Appendix

Comp #: 100 Concrete - Repair/Replace **Quantity: Sidewalks, etc.**
Location: Sidewalks adjacent to common areas, pads under picnic tables, mail box pads, play area curbing, etc.
Funded?: Yes.
History: None known
Comments: Remaining useful life adjusted down and cost inflated from prior reserve study.
Useful Life: 10 years Remaining Life: 4 years
Best Case: $ 2,300 Worst Case: $3,500
Cost Source: ARI Cost Database: Similar Project
Cost History

Comp #: 120 Asphalt - Resurface **Quantity: Roadways, etc.**
Location: Roadways throughout association
Funded?: No. Roads are reportedly public, therefore municipality responsibility to maintain, repair and replace
History: None known
Comments: Not funded – no changes from previous reserve study.
Useful Life: Remaining Life:
Best Case: Worst Case:
Cost Source:

Comp #: 140 Wood Fence - Replace **Quantity: ~ 3,250 LF 6' tall wood**
Location: Partial perimeter along association at W 36th Ave & S Ely Street, going all the way to W 27th Ave
Funded?: Yes.
History: Replaced 2013
Comments: Remaining useful life adjusted down, and cost inflated from the prior reserve study.
Useful Life: 20 years Remaining Life: 10 years
Best Case: $ 85,200 Worst Case: $120,000
Cost Source: ARI Cost Database: Similar Project
Cost History

Comp #: 141 Wood Fence - Stain **Quantity: ~ 3,250 LF 6' tall wood**
Location: Partial perimeter along association at W 36th Ave & S Ely Street, going all the way to W 27th Ave
Funded?: Yes.
History: 2019 $8,405.64
Comments: Remaining useful life adjusted down, and cost inflated from the prior reserve study.
Useful Life: 5 years Remaining Life: 0 years
Best Case: $ 8,200 Worst Case: $10,400
Cost Source: Client Cost History

Comp #: 145 Brick Columns - Replace **Quantity: ~ (10) brick**
Location: Adjacent to perimeter fencing
Funded?: No. Useful life not predictable
History: Added at time of 2013 fence replacement
Comments: Not funded – no changes from previous reserve study.
Useful Life: Remaining Life:
Best Case: Worst Case:
Cost Source:

Comp #: 160 Pole Lights - Replace **Quantity: Moderate quantity**
Location: Adjacent to public streets
Funded?: No. Reportedly local municipality/utility responsibility to maintain, repair and replace
History: None known
Comments: Not funded – no changes from previous reserve study.
Useful Life: Remaining Life:
Best Case: Worst Case:
Cost Source:

Comp #: 170 Landscape - Refurbish **Quantity: Trees, shrubs, turf**
Location: Common area landscaping
Funded?: Yes.
History: Trees planted 2019 $4k
Comments: Remaining useful life remains at zero, as work was not completed or planned for; cost inflated from the prior study. Some tree work being discussed for 2023 subsequent to our report completion. No specific details provided.
Useful Life: 5 years Remaining Life: 0 years
Best Case: $ 3,500 Worst Case: $5,800
Cost Source: ARI Cost Database: Similar Project
Cost History

Comp #: 175 Irrigation System - Repair/Replace **Quantity: Extensive system**
Location: Common area landscaping
Funded?: Yes.
History: None known
Comments: Remaining useful life adjusted down, and cost inflated from the prior reserve study.
Useful Life: 5 years Remaining Life: 0 years
Best Case: $ 2,300 Worst Case: $3,500
Cost Source: ARI Cost Database: Similar Project
Cost History

Comp #: 200 Monument Signage - Replace **Quantity: ~ (1) masonry, (1) rock**
Location: Entry/exits to association along S Ely Street & W 36th Ave
Funded?: Yes.
History: None known
Comments: Remaining useful life adjusted down, and cost inflated from the prior reserve study.
Useful Life: 25 years Remaining Life: 5 years
Best Case: $ 4,000 Worst Case: $6,300
Cost Source: ARI Cost Database: Similar Project
Cost History

Comp #: 205 Mailboxes - Replace **Quantity: ~ (14) mail, (1) parcel**
Location: Adjacent to streets throughout association
Funded?: Yes.
History: Manufacture dates 1998-2000
Comments: Remaining useful life adjusted down, and cost inflated from the prior reserve study.
Useful Life: 25 years Remaining Life: 1 years
Best Case: $ 30,000 Worst Case: $36,000
Cost Source: ARI Cost Database: Similar Project
Cost History

Comp #: 340 Play Equipment - Replace (a) **Quantity: ~ (1) metal (1) tireswing**
Location: Main park along S Conway Drive
Funded?: Yes.
History: Replaced 2014
Comments: Remaining useful life adjusted down, and cost inflated from the prior reserve study.
Useful Life: 25 years Remaining Life: 15 years
Best Case: $ 35,000 Worst Case: $45,900
Cost Source: ARI Cost Database: Similar Project
Cost History

Comp #: 340 Play Equipment - Replace (b) **Quantity: ~ (1) metal, (1) swing**
Location: Parks on S Dennis Ct & S Buntin Street
Funded?: Yes.
History: Original to 2001 construction
Comments: Remaining useful life adjusted down, and cost inflated from the prior reserve study.

NOTE: This component has been significantly affected by inflation.
Useful Life: 25 years Remaining Life: 2 years
Best Case: $ 40,000 Worst Case: $60,000
Cost Source: ARI Cost Database: Similar Project
Cost History

Comp #: 346 Site Furniture - Replace (a) **Quantity: ~ (3) picnic tables**
Location: Main park on S Conway Drive and park on S Dennis Ct
Funded?: Yes.
History: Installed 2017 $1,521.89
Comments: Remaining useful life adjusted down, and cost inflated from the prior reserve study.
Useful Life: 25 years Remaining Life: 18 years
Best Case: $ 2,700 Worst Case: $4,200
Cost Source: ARI Cost Database: Similar Project
Cost History

Comp #: 346 Site Furniture - Replace (b) **Quantity: ~ (9) assorted**
Location: Throughout common area parks
Funded?: Yes.
History: None known
Comments: Remaining useful life adjusted down, and cost inflated from the prior reserve study.
Useful Life: 25 years Remaining Life: 2 years
Best Case: $ 6,900 Worst Case: $7,800
Cost Source: ARI Cost Database: Similar Project
Cost History

Comp #: 350 Pet Stations - Replace **Quantity: ~ (3) pet stations**
Location: One at each common area park
Funded?: No. Cost projected to be too small to qualify for reserve funding
History: Installed 2017
Comments: Not funded – no changes from previous reserve study.
Useful Life: Remaining Life:
Best Case: Worst Case:
Cost Source:

Comp #: 599 Reserve Study - Update **Quantity: Annual update**
Location: Association limited common elements
Funded?: No. Annual cost; best handled as operating expense
History: 2014 FULL, 2019 WSV, 2021 NSV, 2024 NSV
Comments: Not funded – no changes from previous reserve study
Useful Life: Remaining Life:
Best Case: Worst Case:
Cost Source:

Reserve Study Executive Summary — No-Site-Visit

Shadow Run at Canyon Lakes - Common Areas Report #: **33951-2**
Kennewick, WA # of Units: 197
Level of Service: **Update "No-Site-Visit"** **January 1, 2024** through **December 31, 2024**

Findings & Recommendations as of January 1, 2024

Starting Reserve Balance	**$92,864**
Current Fully Funded Reserve Balance	**$175,598**
Percent Funded	**52.9 %**
Average Reserve (Deficit) or Surplus Per Unit	**($420)**
Recommended 2024 100% Annual "Full Funding" Contributions	**$19,410**
Recommended 2024 70% Annual "Threshold Funding" Contributions	**$17,350**
2024 "Baseline Funding" minimum to keep Reserves above $0	**$15,850**
Most Recent Budgeted Contribution Rate	**$15,588**

Reserve Fund Strength: 52.9%

Weak	Fair	Strong
< 30%	< 70%	> 130%
	X	
Risk of Special Assessment:	**High**	**Medium**	**Low**

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves	**1.00 %**
Annual Inflation Rate	**3.00 %**

• This is a Update "No-Site-Visit", meeting all requirements of the Revised Code of Washington (RCW). This study was prepared by, or under the supervision of a credentialed Reserve Specialist (RS™).

• Your Reserve Fund is currently 52.9 % Funded. This means the association's special assessment & deferred maintenance risk is currently Medium. The objective of your multi-year Funding Plan is to fund your Reserves to a level where you will enjoy a low risk of such Reserve cash flow problems. The current annual deterioration of your reserve components is $14,366 - see Component Significance table.

• Based on this starting point and your anticipated future expenses, our recommendation is to budget Reserve Contributions to within the 70% to 100% range as noted above. The 100% "Full" and 70% contribution rates are designed to gradually achieve these funding objectives by the end of our 30-year report scope.

• No assets appropriate for Reserve designation known to be excluded. See appendix for component information and the basis of our assumptions. "Baseline Funding" in this report is as defined within the RCW, "to maintain the reserve account balance above zero throughout the thirty-year study period, without special assessments." Funding plan contribution rates, and reserves deficit or (surplus) are presented as an aggregate total, assuming average percentage of ownership. The actual ownership allocation may vary - refer to your governing documents, and assessment computational tools to adjust for any variation.

Executive Summary Table

Report # 33951-2
No-Site-Visit

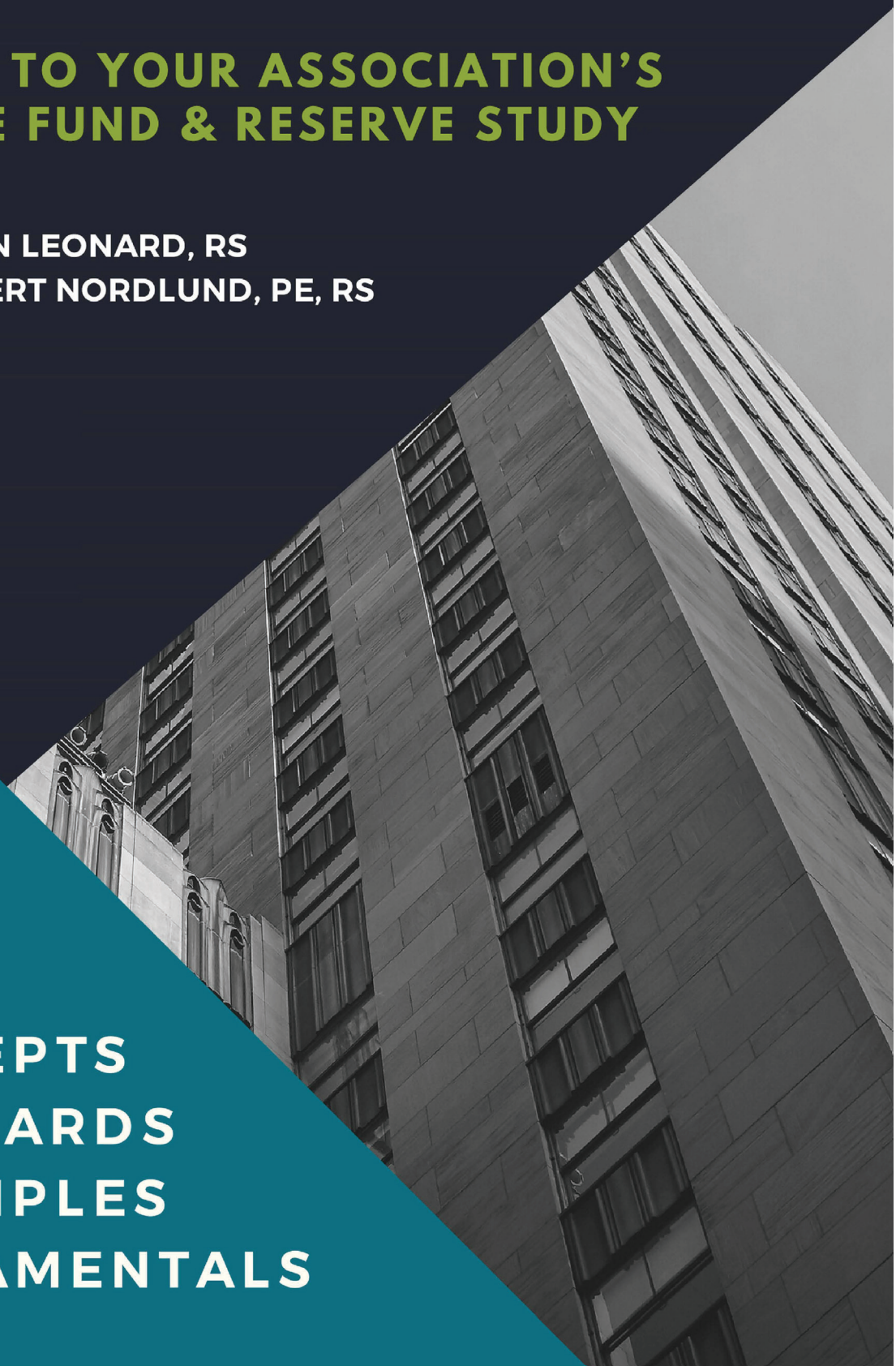
#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost
	Inventory Appendix			
100	Concrete - Repair/Replace	10	4	$2,900
140	Wood Fence - Replace	20	10	$102,600
141	Wood Fence - Stain	5	0	$9,300
170	Landscape - Refurbish	5	0	$4,650
175	Irrigation System - Repair/Replace	5	0	$2,900
200	Monument Signage - Replace	25	5	$5,150
205	Mailboxes - Replace	25	1	$33,000
340	Play Equipment - Replace (a)	25	15	$40,450
340	Play Equipment - Replace (b)	25	2	$50,000
346	Site Furniture - Replace (a)	25	18	$3,450
346	Site Furniture - Replace (b)	25	2	$7,350
11	**Total Funded Components**			

Note 1: Yellow highlighted line items are expected to require attention in this initial year, light blue highlighted items are expected to occur within the first-five years.

UNDERSTANDING RESERVES

A GUIDE TO YOUR ASSOCIATION'S RESERVE FUND & RESERVE STUDY

KEVIN LEONARD, RS
ROBERT NORDLUND, PE, RS



CONCEPTS
STANDARDS
PRINCIPLES
FUNDAMENTALS

TABLE OF CONTENTS

INTRODUCTION

On October 9, 2007, the Dow Jones Industrial Average closed at its, then, all-time high of 14,164.53. On the surface, everything appeared fine. The economy was flourishing on the back of a seemingly stable housing market. Little did anyone know that this was all built on a house of cards. Sub-prime mortgages defaulted and major financial institutions only survived because of a bailout by the federal government. Nineteen months after October 2007, on March 6, 2009, the Dow Jones reached its, then, lowest level of 6,443.27.

The whole country was hit hard by the financial crisis—big banks, small businesses, and homeowners alike. Our clients desperately needed guidance during this difficult time. One particular association, a 100-unit townhome community in Southern California, came to us asking "What should we do about our reserves?"

They were 28% funded, contributing half as much to their reserves as the amount we had recommended, and they were facing close to $800,000 worth of shingle roof replacements.

An $8,000-per-unit special assessment was not something their owners could afford and they were reluctant to take out yet another loan (they had recently financed their latest asphalt project). We immediately got to work.

Their first course of action was to raise the monthly contribution rate as close to our recommendation as

possible. This did not provide significant assistance in the short term, but it was necessary to get them on the right track. Based on what they currently had in their reserves, we calculated that if they were able to phase out the roofing project over four years and defer other less significant projects, they might be able to squeeze by without requiring supplemental funding.

Instead of an $800,000 roofing project that year, they replaced the critical roofs and repaired others, delaying less immediate replacements over the following three years. This evened out to about $200,000 over four years. Their community room remodel was put on hold, and we extended the project cycle for wrought iron and wood painting from every four years to every five. The ten-foot-tall pole lights throughout the community would need to last a few more years than anticipated, and the pool/spa surfaces were destined to accumulate a few more cracks and chips before they would have the funds to resurface.

Four long years later, all building roofs had been replaced without the need for a special assessment. The board could finally let out a sigh of relief and focus on how to never let their association get into such a vulnerable position again.

Today, we are happy to report that they are currently 38% funded (not ideal, but considerably better than where they started) and they are making appropriately sized reserve contributions. Moving forward, the funding plan will ensure that enough funds will be available to

maintain and eventually replace their major common area components on schedule.

Successful reserve planning begins by acknowledging that most major components will not last forever. The plan is executed when the board performs their duty to protect, maintain, and enhance the common areas of their association by providing sufficient funds. This is possible when communication is clear and everyone involved, board members and managers alike, have a complete understanding of their reserve fund and reserve study.

Part I

RESERVE FUND BASICS

"Annual income twenty pounds, annual expenditure nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pound ought and six, result misery."
– Charles Dickens

Living in an HOA or CID (common-interest development) certainly has its pros and cons. The dues may be higher than you would like and you might not be able to choose the style of your own garage door, but there are benefits, too. You can have the security of living in a gated neighborhood with a community pool, tennis courts, bocce ball, golf course, or enjoy city life in a high-rise with a fitness center and coffee bar to satisfy your daily habit. The association handles all common area maintenance with "economies of scale," minimizing owner costs and responsibilities!

These shared benefits may be too expensive for a single homeowner to own and maintain, but with expenses divided among hundreds (or sometimes thousands) of community members, the benefits far outweigh the cost that an individual owner pays on a monthly basis. The key for community associations, since common area expenses are shared among all owners (both current and future), is to ensure that everyone pays *their fair share* along the way.

In addition to being the fairest option to pay for significant expenses, the following chapter will also address the fact that reserve funds are the least expensive option as well. An equitable distribution of the reserve burden across all owners of an association and using reserve funds as efficiently as possibly are two issues that drive the need for accurate budget planning.

Chapter 1

WHY RESERVE FUNDS?

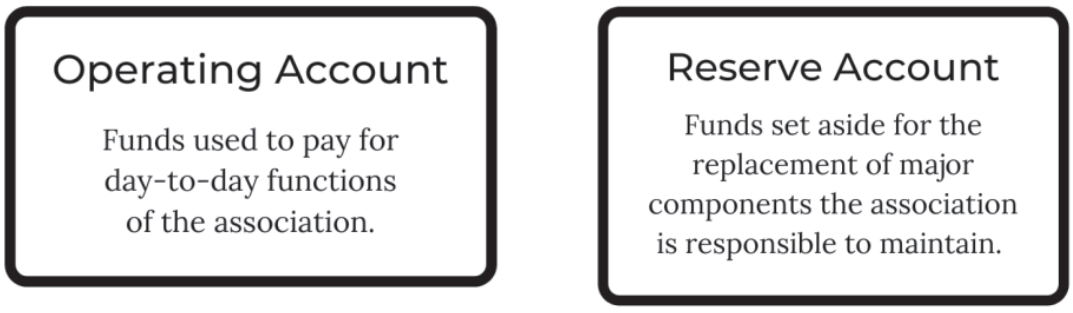
Reserve funding is multi-faceted and brings to mind a famous Arnold Palmer quote: "Golf is deceptively simple and endlessly complicated." We want to help you understand the "complicated" part of reserves, but the concepts can be very simple.

There are some things that never change:

- Reserve expenses are inevitable
- The association board is responsible for ensuring those expenses are paid
- Delays usually get expensive
- Homeowners always get stuck paying the bill

The overall concept of a reserve study is to identify an association's predictable expenses and put together a responsible funding plan so that homeowners pay their fair share—no more, no less.

Expenses an association will incur over time can generally be split into two types: Operating and Reserves.



On one hand, there will be routine costs paid for on a daily, weekly, or monthly basis (eg, management fees, insurance payments, and routine maintenance). These types of operating expenses do not vary greatly from year to year, which makes them simple to plan for in the annual operating budget.

Alternatively, reserves are commonly used for large, infrequent projects such as painting building exteriors or replacing perimeter fencing. It is money that an association saves over a long period of time to replace roads, roofs, or the rusted twenty-year-old boiler that has been making a strange groaning sound for the last three months.

Reserves are treated differently than operating funds because these expenses do not occur on a regular basis. Most operating budgets would not be able to absorb a $100,000 expense that pops up. This is why saving money over time is the ideal method for funding infrequent reserve projects.

Not only does it make sense to set aside reserve funds from a budgeting perspective, it is also the most equitable approach for any community. Remember, the key for community associations is that all owners (both current and future) pay their fair share of expenses. Over time, homeowners will come and go. Some will stay at their home for thirty years, others three years, but the common area components will be there indefinitely. Without adequately funded reserves and advance planning, only the owners living in the community at the time the roof

inevitably fails would be responsible for the total cost. This is inherently unfair. The roof had lasted twenty years, so each owner who benefitted from the roof over those twenty years should be responsible to pay his or her fair share.

The good news is that, while infrequent, reserve projects are very predictable. Reserve expenses do not pop up "randomly," they gradually deteriorate and fail on a predictable schedule. The useful life of the roof in this example is twenty years. As soon as the roof is installed, it begins to steadily deteriorate, shingle by shingle. As the roof ages, the reserve fund should grow proportionally so that, after twenty years, the association has enough money to pay for a new roof.

Let's say the roof replacement costs $200,000. Ideally, the association should collect and set aside approximately $10,000/year ($200,000 divided by twenty years). Done this way, after twenty years, when the roof's useful life has been "used up," they will have the money to pay for the full replacement. A steady contribution rate would ensure that all owners pay their fair share.

If homeowners in years one through ten do not foresee the need for the eventual replacement and do not set aside any money (granted, it is hard to see anything when their heads are buried in the sand), then homeowners in years eleven through twenty would only have ten years to collect enough money for replacement. They would need $20,000 per year—double their fair share!

In addition to being the most equitable way to fund capital replacement projects, making regular reserve contributions is the least expensive as well. Let us explain.

There are essentially four ways to pay for a reserve expense. First, associations can make regular budgeted contributions. This money is put into an interest-earning account until the time comes to replace the component. With the supplemental interest income, this method will cost the association less than the total replacement amount. Any dollar that can be contributed by an outside organization, such as a bank, means one less dollar the homeowners will have to pay.

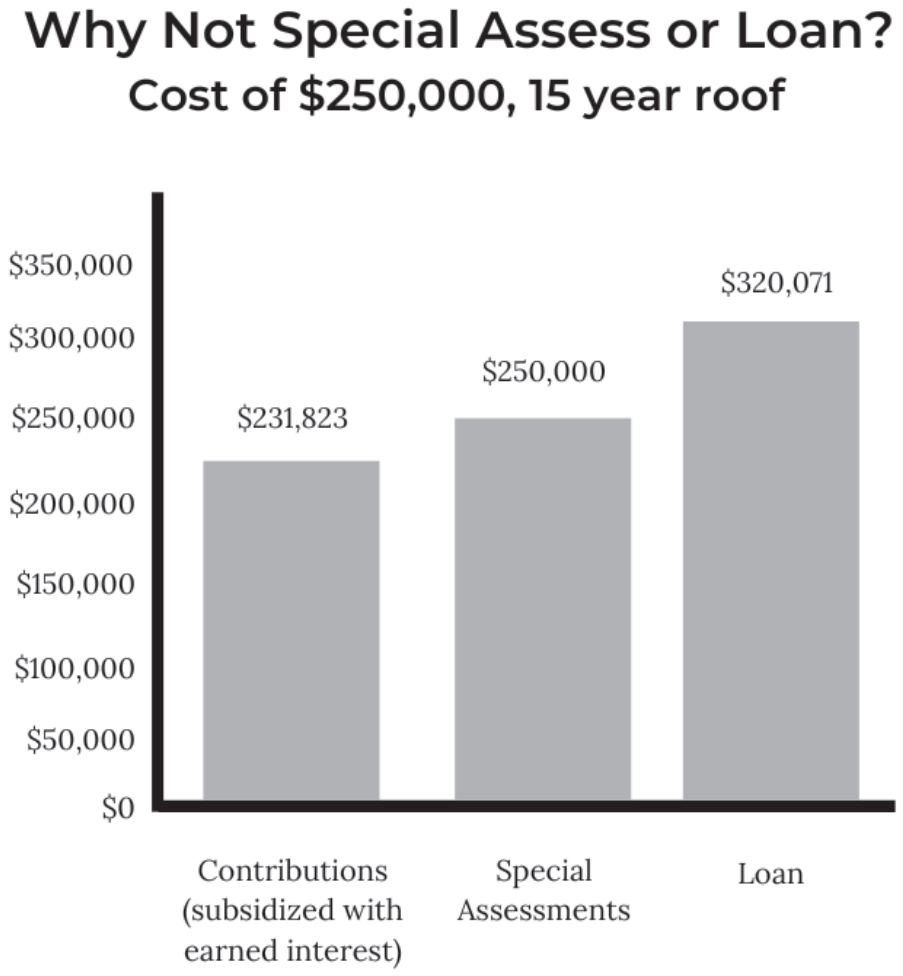
The second way is when the board is forced to pass a special assessment for the total amount of the roof. This method ends up costing the association the exact amount for the replacement but is unfair to the current owners.

Special Assessment

"A temporary assessment levied on the members of an association in addition to regular assessments. Note that special assessments are often regulated by governing documents or local statues."
- National Reserve Study Standards

In some cases, the board may not be able to pass a special assessment and they need to apply for a loan (paying interest to the bank, the opposite of the bank paying interest to the association). These second and third methods show a lack of foresight that hurts the association financially.

And lastly, the fourth way to "pay" for this roofing expense is to defer the replacement. This is possibly the most expensive option. It saves money in the short term, but damage due to deferred maintenance makes the project more costly, and the need to replace the roof never goes away. The community will eventually begin to look run-down with poor curbside appeal, leading to lower property values.



Boards have governing documents that define their responsibilities to preserve, maintain and enhance the common areas of the association. They also have the authority to collect funds to perform these duties. The only choice they have is how to pay for long-term, significant expenses. This decision affects when payments are made, how much is paid at a time, who pays, and additions or offsets to the cost.

A loan is paid on a regular basis in the future, it is paid over a certain term, it affects current and future owners, and interest will add to the cost.

A special assessment is paid today, it is paid in a lump sum, it affects only the current owners, and there is no addition or offset to the cost.

Regular contributions are paid on a regular basis, it is paid a little at a time, it affects all owners, and earned interest offsets some of the cost, making this option the fairest and lowest cost for an association.

Why reserve funds? Because expenses are inevitable and predictable. The board is responsible to maintain the common areas. Delaying major projects will usually compound expenses, and the homeowners always get stuck paying the bill. So, reserving funds on a regular basis is not only the most equitable approach for community associations, it is the most financially sound option as well.

Get your copy today!

Click here to visit the Association Reserves website to learn more about Reserve Studies and get a proposal for your association.

ASSOCIATION RESERVES™

Click here to order online.

amazon