Reverie@ PCV RESV

# Reverie at Pine Creek Village
# 3073 Sovereign View
# Colorado Springs, CO 80920


## Level 1 Reserve Analysis

### Report Period – 01/01/15 – 12/31/15

Client Reference Number - 8980
Property Type – Single Family Development
Number of Units – 16
Fiscal Year End – December 31

Final Report

Date of Property Observation - November 19, 2014
Project Manager - G. Michael Kelsen, RS, PRA
Main Contact Person - Ms. Candace Pickett, Community Manager
Report was prepared on - Monday, February 09, 2015

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## Introduction to the Reserve Analysis –

The elected officials of this association made a wise decision to invest in a Reserve Analysis to get a better understanding of the status of the Reserve funds. This Analysis will be a valuable tool to assist the Board of Directors in making the decision to which the dues are derived. Typically, the Reserve contribution makes up 15% - 40% of the association's total budget. Therefore, Reserves is considered to be a significant part of the overall monthly association payment.

Every association conducts its business within a budget. There are typically two main parts to this budget, Operating and Reserves. The Operating budget includes all expenses that are fixed on an annual basis. These would include management fees, maintenance fees, utilities, etc. The Reserves is primarily made up of Capital Replacement items such as asphalt, landscaping, concrete work, irrigation, etc., that do not normally occur on an annual basis.

The Reserve Analysis is also broken down into two different parts, the Physical Analysis and the Financial Analysis. The Physical Analysis is information regarding the physical status and replacement cost of major common area components that the association is responsible to maintain. It is important to understand that while the Component Inventory will remain relatively "stable" from year to year, the Condition Assessment and Life/Valuation Estimates will most likely vary from year to year. You can find this information in the ***Asset Inventory Section*** (Section 2) of this Reserve Analysis. The ***Financial Analysis Section*** is the evaluation of the association's Reserve balance, income, and expenses. This is made up of finding the clients current Reserve Fund Status (measured as Percent Funded) and a recommendation for an appropriate Reserve Allocation rate (also known as the Funding Plan). You can find this information in Section 3 (pages 1 – 13) of this Reserve Analysis.

The purpose of this Reserve Analysis is to provide an educated estimate as to what the Reserve Allocation needs to be. The detailed schedules will serve as an advanced warning that major projects will need to be addressed in the future. This will allow the Board of Directors to have ample timing to obtain competitive estimates and bids that will result in cost savings to the individual homeowners. This will also ensure the physical well being of the property and ultimately enhance each owner's investment, while limiting the possibility of unexpected major projects that may lead to Special Assessments.

It is important for the client, owners, and potential future owners to understand that the information contained in this analysis is based on estimates and assumptions gathered from various sources. Estimated life expectancies and cycles are based upon conditions that were readily visible and accessible at time of the inspection. No destructive or intrusive methods (such as entering the walls to inspect the condition of electrical wiring, plumbing lines, and telephone wires) were performed. In addition, environmental hazards (such as lead paint, asbestos, radon, etc.), construction defects, and acts of nature have also been excluded from this report. If problem areas were revealed, a reasonable effort has been made to include these items within the report. While every effort has been made to ensure accurate results, this report reflects the judgement of Aspen Reserve Specialties and should not be construed as a guarantee or assurance of predicting future events.

## General Information and Answers to Frequently Asked Questions –

**Why is it important to perform a Reserve Study?**

As previously mentioned, the Reserve allocation makes up a significant portion of the total monthly dues. This report provides the essential information that is needed to guide the Board of Directors in establishing the budget in order to run the daily operations of your association. It is suggested that a third party professionally prepare a Reserve Study since there is no vested interest in the property. Also, a professional knows what to look for and how to properly develop an accurate and reliable component list.

**Now that we have "it", what do we do with "it"?**

Hopefully, you will not look at this report and think it is too cumbersome to understand. Our intention is to make this Reserve Analysis very easy to read and understand. Please take the time to review it carefully and make sure the "main ingredients" (asset information) are complete and accurate. If there are any inaccuracies, please inform us immediately so we may revise the report.

Once you feel the report is an accurate tool to work from, use it to help establish your budget for the upcoming fiscal year. The Reserve allocation makes up a significant portion of the total monthly dues and this report should help you determine the correct amount of money to go into the Reserve fund. Additionally, the Reserve Study should act as a guide to obtain proposals in advance of pending projects. This will give you an opportunity to shop around for the best price available.

**How often do we update or review "it"?**

Unfortunately, there is a misconception that these reports are good for an extended period of time since the report has projections for the next 30 years. Just like any major line item in the budget, the Reserve Analysis should be reviewed *each year* before the budget is established. Invariably, some assumptions have to be made during the compilation of this analysis. Anticipated events may not materialize and unpredictable circumstances could occur. Deterioration rates and repair/replacement costs will vary from causes that are unforeseen. Earned interest rates may vary from year to year. These variations could alter the content of the Reserve Analysis. Therefore, this analysis should be reviewed annually, and a property inspection should be conducted at least once every three years.

**Is it the law to have a Reserve Study conducted?**

The Government requires reserve analyses in approximately 20 states for homeowners associations. Even if it is not currently governed by your state, the chances are very good that the documents of the association require the association to have a Reserve fund established. This doesn't mean a Reserve Analysis is required, but how are you going to know you have enough funds in the account if you don't have the proper information? Hypothetically, some associations look at the Reserve fund and think that $50,000 is a lot of money and they are in good shape. What they don't know is a major expense is going to occur within 5 years, and the cost of the project is going to exceed $75,000. So while $50,000 sounds like a lot of money, in reality it won't even cover the expense, let alone all the other amenities the association is responsible to maintain.

**What makes an asset a "Reserve" item versus an "Operating" item?**

A "Reserve" asset is an item that is the responsibility of the association to maintain, has a limited Useful Life, predictable Remaining Useful Life expectancies, typically occurs on a cyclical basis that exceeds 1 year, and costs above a minimum threshold cost. An "operating" expense is typically a fixed expense that occurs on an annual basis. For instance, minor repairs to a roof for damage caused by high winds or other weather elements would be considered an "operating" expense. However, if the entire roof needs to be replaced because it has reached the end of its life expectancy, then the replacement would be considered a Reserve expense.

**The GREY area of "maintenance" items that are often seen in a Reserve Study –**

One of the most popular questions revolves around major "maintenance" items, such as painting the buildings or seal coating the asphalt. You may hear from your accountant that since painting or seal coating is not replacing a "capital" item, then it cannot be considered a Reserve issue. However, it is the opinion of several major Reserve Study providers that these items are considered to be major expenses that occur on a cyclical basis. Therefore, it makes it very difficult to ignore a major expense that meets the criteria to be considered a Reserve component. Once explained in this context, many accountants tend to agree and will include any expenses, such as these examples, as a Reserve component.

**The Property Inspection –**

The Property Inspection was conducted following a review of the documents that were established by the developer identifying all common area assets. In some cases, the Board of Directors at some point may have revised the documents. In either case, the most current set of documents was reviewed prior to inspecting the property. In addition, common area assets may have been reported to Aspen Reserve Specialties by the client, or by other parties.

Estimated life expectancies and life cycles are based upon conditions that were readily accessible and visible at the time of the inspection. We did not destroy any landscape work, building walls, or perform any methods of intrusive investigation during the inspection. In these cases, information may have been obtained by contacting the contractor or vendor that has worked on the property.

**The Reserve Fund Analysis –**

We projected the starting balance from taking the most recent balance statement, adding expected Reserve contributions for the rest of the year, and subtracting any pending projects for the rest of the year. We compared this number to the ideal Reserve Balance and arrived at the Percent funded level. Measures of strength are as follows:

**0% - 30% Funded** – Is considered to be a "weak" financial position. Associations that fall into this category are subject to Special Assessments and deferred maintenance, which could lead to lower property values. If the association is in this position, actions should be taken to improve the financial strength of the Reserve Fund.

**31% - 69% Funded** – The majority of associations are considered to be in this "fair" financial position. While this doesn't represent financial strength and stability, the likelihood of Special Assessments and deferred maintenance is diminished. Effort should be taken to continue strengthening the financial position of the Reserve fund.

**70% - 99% Funded** – This indicates financial strength of a Reserve fund and every attempt to maintain this level should be a goal of the association.

**100% Funded** – This is the ideal amount of Reserve funding. This means that the association has the exact amount of funds in the Reserve account that should be at any given time.

## Summary of Reverie at Pine Creek - Association ID # - 08980

| | |
|---|---|
| Projected Starting Balance as of January 1, 2015 - | **$5,741** |
| Ideal Reserve Balance as of January 1, 2015 - | **$16,756** |
| Percent Funded as of January 1, 2015 - | **34%** |
| Recommended Reserve Allocation (per month) - | **$955** |
| Minimum Reserve Allocation (per month) - | **$895** |
| Recommended Special Assessment - | **$0** |

Information to complete this Reserve Analysis was gathered during several property evaluations of the common area elements on November 19, 2014. In addition, we obtained information by contacting local vendors and contractors, as well as communicating with the property representative (Community Manager). To the best of our knowledge, the conclusions and suggestions of this report are considered reliable and accurate insofar as the information obtained from these sources.

This property contains 16 units (single family detached homes) as part of a master community where construction started in 2007, but was not completed until 2013. For purposes of this report, the majority of the common area assets were constructed about 8 years ago. Common area components the association is responsible to maintain include sidewalks in the center island, the concrete streets, landscaped areas, and an irrigation system. Please refer to the *Projected Reserve Expenditure* table in the Financial Analysis section for a list of when components are scheduled to be addressed.

In comparing the projected balance of $5,741 versus the ideal Reserve Balance of $16,756 we find the association Reserve fund to be in a less than average financial position at this point in time (approximately 34% funded of ideal). Communities in this position are typically susceptible to falling into a position where Special Assessments and/or deferred maintenance is a possibility. As a result of the information contained in this report, we find the current budgeted Reserve allocation ($140.00 per month) to be less than adequate in increasing the strength of the Reserve fund to prepare for future projects. Therefore, we are recommending a substantial increase of the Reserve contribution to $955 per month starting in 2015, followed by nominal annual increases of 4.25% thereafter to help offset the effects of inflation. By following the recommendation, the plan will maintain the Reserve account in a positive manner, while gradually increasing to a fully funded position within the thirty-year period.

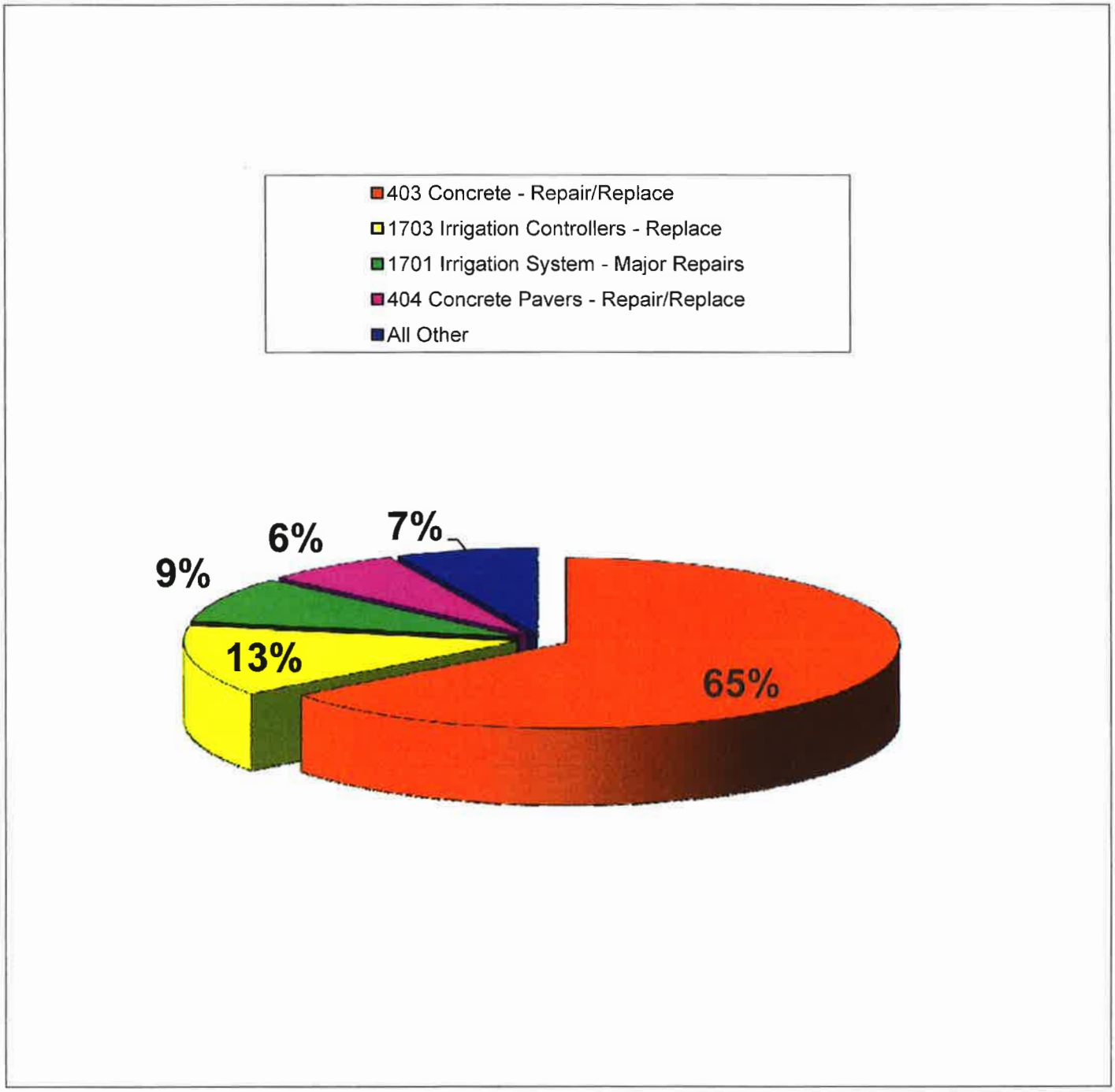
In the percent Funded graph, you will see we have also provided a "minimum Reserve contribution" of $895 per month. If the Reserve contribution falls below this rate, then the Reserve fund will fall into a situation where Special Assessments, deferred maintenance, and lower property values are likely at some point in the near future. The minimum Reserve allocation follows the "threshold" theory of Reserve funding where the "percent funded" status is not allowed to dip below 30% funded at any point during the thirty-year period.

This was provided for one purpose only, to show the association how small the difference is between the two scenarios and how it would not make financial sense to contribute less money (approximately 6% in this case) to the Reserve fund to only stay above a certain threshold. As you can see, the difference between the two scenarios is considered to be minimal, and based on the risk, we strongly suggest the recommended Reserve Allocation is followed.

## *Significant Components For Reverie at Pine Creek*

| ID | Asset Name | UL | RUL | Ave Curr Cost | Significance: (Curr Cost/UL) As $ | As % |
|---|---|---|---|---|---|---|
| 403 | Concrete - Repair/Replace | 3 | 2 | $18,850 | $6,283 | 64.6378% |
| 404 | Concrete Pavers - Repair/Replace | 6 | 4 | $3,800 | $633 | 6.5152% |
| 601 | Concrete Sidewalks - Repair | 12 | 8 | $925 | $77 | 0.7930% |
| 602 | Concrete Pavers - Repair | 12 | 10 | $7,000 | $583 | 6.0009% |
| 1701 | Irrigation System - Major Repairs | 8 | 5 | $6,750 | $844 | 8.6798% |
| 1703 | Irrigation Controllers - Replace | 12 | 8 | $15,600 | $1,300 | 13.3733% |

## *Significant Components Graph For Reverie at Pine Creek*

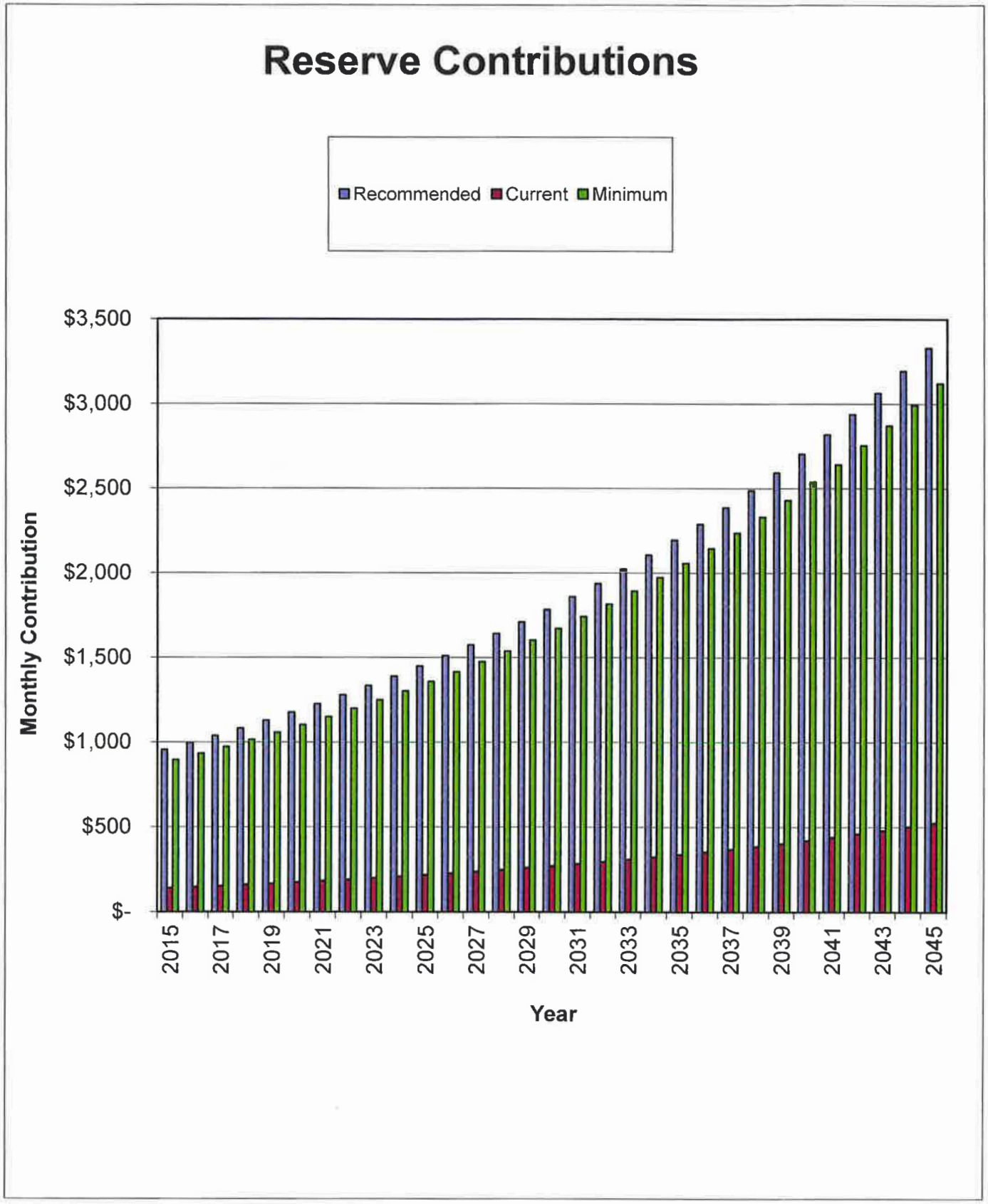



| Asset ID | Asset Name | UL | RUL | Average Curr. Cost | Significance: (Curr Cost/UL) As $ | As % |
|---|---|---|---|---|---|---|
| 403 | Concrete - Repair/Replace | 3 | 2 | $18,850 | $6,283 | 65% |
| 1703 | Irrigation Controllers - Replace | 12 | 8 | $15,600 | $1,300 | 13% |
| 1701 | Irrigation System - Major Repairs | 8 | 5 | $6,750 | $844 | 9% |
| 404 | Concrete Pavers - Repair/Replace | 6 | 4 | $3,800 | $633 | 7% |
| All Other | See Expanded Table on Page 4 For Additional Breakdown | | | | $660 | 7% |

## *Yearly Summary For Reverie at Pine Creek*

| Fiscal Year Start | Fully Funded Balance | Starting Reserve Balance | Percent Funded | Annual Reserve Contribs | Rec. Special Ass'mnt | Interest Income | Reserve Expenses |
|---|---|---|---|---|---|---|---|
| 2015 | $16,756 | $5,741 | 34% | $11,460 | $0 | $115 | $0 |
| 2016 | $27,669 | $17,316 | 63% | $11,947 | $0 | $234 | $0 |
| 2017 | $39,529 | $29,497 | 75% | $12,455 | $0 | $255 | $20,585 |
| 2018 | $30,890 | $21,623 | 70% | $12,984 | $0 | $282 | $0 |
| 2019 | $43,872 | $34,889 | 80% | $13,536 | $0 | $396 | $4,532 |
| 2020 | $53,225 | $44,290 | 83% | $14,111 | $0 | $356 | $31,902 |
| 2021 | $34,941 | $26,854 | 77% | $14,711 | $0 | $344 | $0 |
| 2022 | $49,742 | $41,909 | 84% | $15,336 | $0 | $498 | $0 |
| 2023 | $65,805 | $57,743 | 88% | $15,988 | $0 | $408 | $50,307 |
| 2024 | $30,641 | $23,832 | 78% | $16,667 | $0 | $323 | $0 |
| 2025 | $47,116 | $40,822 | 87% | $17,376 | $0 | $413 | $16,772 |
| 2026 | $47,485 | $41,839 | 88% | $18,114 | $0 | $358 | $30,591 |
| 2027 | $34,140 | $29,720 | 87% | $18,884 | $0 | $393 | $0 |
| 2028 | $52,904 | $48,998 | 93% | $19,687 | $0 | $531 | $11,962 |
| 2029 | $60,786 | $57,253 | 94% | $20,523 | $0 | $503 | $34,909 |
| 2030 | $45,854 | $43,371 | 95% | $21,396 | $0 | $543 | $0 |
| 2031 | $67,577 | $65,309 | 97% | $22,305 | $0 | $730 | $7,685 |
| 2032 | $83,131 | $80,659 | 97% | $23,253 | $0 | $727 | $39,837 |
| 2033 | $66,710 | $64,802 | 97% | $24,241 | $0 | $773 | $0 |
| 2034 | $92,146 | $89,816 | 97% | $25,271 | $0 | $1,029 | $0 |
| 2035 | $119,737 | $116,116 | 97% | $26,345 | $0 | $870 | $85,314 |
| 2036 | $60,470 | $58,018 | 96% | $27,465 | $0 | $635 | $17,012 |
| 2037 | $71,015 | $69,107 | 97% | $28,632 | $0 | $695 | $28,443 |
| 2038 | $71,241 | $69,991 | 98% | $29,849 | $0 | $592 | $51,878 |
| 2039 | $48,191 | $48,554 | 101% | $31,118 | $0 | $644 | $0 |
| 2040 | $79,575 | $80,316 | 101% | $32,440 | $0 | $970 | $0 |
| 2041 | $113,686 | $113,726 | 100% | $33,819 | $0 | $1,015 | $59,202 |
| 2042 | $88,840 | $89,359 | 101% | $35,256 | $0 | $1,075 | $0 |
| 2043 | $126,177 | $125,690 | 100% | $36,755 | $0 | $1,382 | $13,033 |
| 2044 | $153,076 | $150,794 | 99% | $38,317 | $0 | $1,246 | $91,751 |

*Reserve Contributions For Reverie at Pine Creek*



*Component Funding Information For Reverie at Pine Creek*

| ID | Component Name | Ave Current Cost | Ideal Balance | Current Fund Balance | Monthly |
|---|---|---|---|---|---|
| 403 | Concrete - Repair/Replace | $18,850 | $6,283 | $5,741 | $617.29 |
| 404 | Concrete Pavers - Repair/Replace | $3,800 | $1,267 | $0 | $62.22 |
| 601 | Concrete Sidewalks - Repair | $925 | $308 | $0 | $7.57 |
| 602 | Concrete Pavers - Repair | $7,000 | $1,167 | $0 | $57.31 |
| 1701 | Irrigation System - Major Repairs | $6,750 | $2,531 | $0 | $82.89 |
| 1703 | Irrigation Controllers - Replace | $15,600 | $5,200 | $0 | $127.72 |

## *Yearly Cash Flow For Reverie at Pine Creek*

| Year | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Starting Balance** | $5,741 | $17,316 | $29,497 | $21,623 | $34,889 |
| *Reserve Income* | $11,460 | $11,947 | $12,455 | $12,984 | $13,536 |
| *Interest Earnings* | $115 | $234 | $255 | $282 | $396 |
| *Special Assessments* | $0 | $0 | $0 | $0 | $0 |
| **Funds Available** | $17,316 | $29,497 | $42,208 | $34,889 | $48,821 |
| **Reserve Expenditures** | $0 | $0 | $20,585 | $0 | $4,532 |
| **Ending Balance** | $17,316 | $29,497 | $21,623 | $34,889 | $44,290 |

| Year | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| **Starting Balance** | $44,290 | $26,854 | $41,909 | $57,743 | $23,832 |
| *Reserve Income* | $14,111 | $14,711 | $15,336 | $15,988 | $16,667 |
| *Interest Earnings* | $356 | $344 | $498 | $408 | $323 |
| *Special Assessments* | $0 | $0 | $0 | $0 | $0 |
| **Funds Available** | $58,756 | $41,909 | $57,743 | $74,139 | $40,822 |
| **Reserve Expenditures** | $31,902 | $0 | $0 | $50,307 | $0 |
| **Ending Balance** | $26,854 | $41,909 | $57,743 | $23,832 | $40,822 |

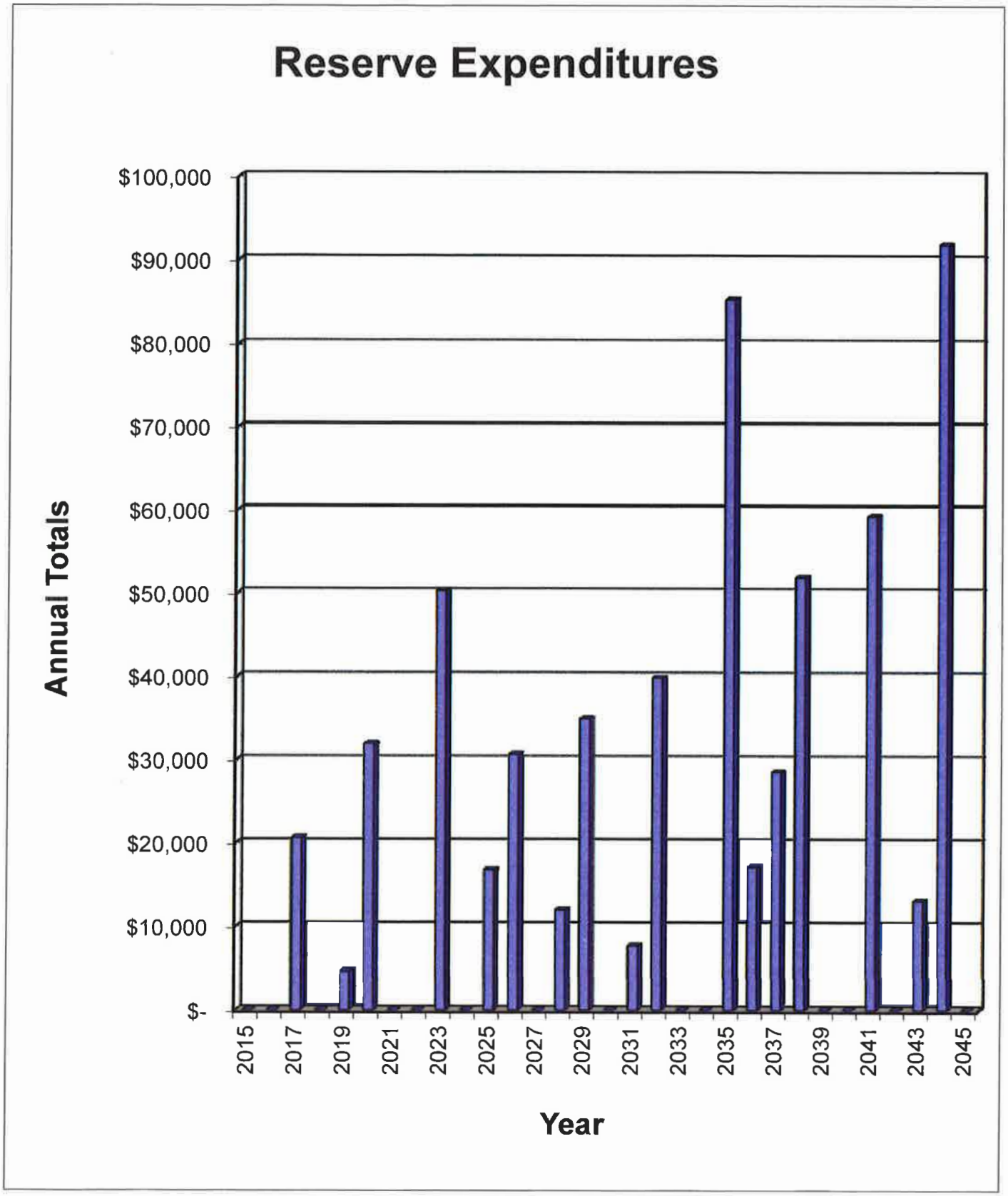
| Year | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|
| **Starting Balance** | $40,822 | $41,839 | $29,720 | $48,998 | $57,253 |
| *Reserve Income* | $17,376 | $18,114 | $18,884 | $19,687 | $20,523 |
| *Interest Earnings* | $413 | $358 | $393 | $531 | $503 |
| *Special Assessments* | $0 | $0 | $0 | $0 | $0 |
| **Funds Available** | $58,611 | $60,311 | $48,998 | $69,216 | $78,280 |
| **Reserve Expenditures** | $16,772 | $30,591 | $0 | $11,962 | $34,909 |
| **Ending Balance** | $41,839 | $29,720 | $48,998 | $57,253 | $43,371 |

| Year | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|
| **Starting Balance** | $43,371 | $65,309 | $80,659 | $64,802 | $89,816 |
| *Reserve Income* | $21,396 | $22,305 | $23,253 | $24,241 | $25,271 |
| *Interest Earnings* | $543 | $730 | $727 | $773 | $1,029 |
| *Special Assessments* | $0 | $0 | $0 | $0 | $0 |
| **Funds Available** | $65,309 | $88,344 | $104,639 | $89,816 | $116,116 |
| **Reserve Expenditures** | $0 | $7,685 | $39,837 | $0 | $0 |
| **Ending Balance** | $65,309 | $80,659 | $64,802 | $89,816 | $116,116 |

| Year | 2035 | 2036 | 2037 | 2038 | 2039 |
|---|---|---|---|---|---|
| **Starting Balance** | $116,116 | $58,018 | $69,107 | $69,991 | $48,554 |
| *Reserve Income* | $26,345 | $27,465 | $28,632 | $29,849 | $31,118 |
| *Interest Earnings* | $870 | $635 | $695 | $592 | $644 |
| *Special Assessments* | $0 | $0 | $0 | $0 | $0 |
| **Funds Available** | $143,332 | $86,118 | $98,434 | $100,432 | $80,316 |
| **Reserve Expenditures** | $85,314 | $17,012 | $28,443 | $51,878 | $0 |
| **Ending Balance** | $58,018 | $69,107 | $69,991 | $48,554 | $80,316 |

| Year | 2040 | 2041 | 2042 | 2043 | 2044 |
|---|---|---|---|---|---|
| **Starting Balance** | $80,316 | $113,726 | $89,359 | $125,690 | $150,794 |
| *Reserve Income* | $32,440 | $33,819 | $35,256 | $36,755 | $38,317 |
| *Interest Earnings* | $970 | $1,015 | $1,075 | $1,382 | $1,246 |
| *Special Assessments* | $0 | $0 | $0 | $0 | $0 |
| **Funds Available** | $113,726 | $148,560 | $125,690 | $163,826 | $190,357 |
| **Reserve Expenditures** | $0 | $59,202 | $0 | $13,033 | $91,751 |
| **Ending Balance** | $113,726 | $89,359 | $125,690 | $150,794 | $98,606 |

*Yearly Expenditures Graph For Reverie at Pine Creek*



*Projected Reserve Expenditures For Reverie at Pine Creek*

| Year | Asset ID | Asset Name | Projected Cost | Total Per Annum |
|---|---|---|---|---|
| 2015 | | No Expenditures Projected | | $0 |
| 2016 | | No Expenditures Projected | | $0 |
| 2017 | 403 | Concrete - Repair/Replace | $20,585 | $20,585 |
| 2018 | | No Expenditures Projected | | $0 |
| 2019 | 404 | Concrete Pavers - Repair/Replace | $4,532 | $4,532 |
| 2020 | 403 | Concrete - Repair/Replace | $23,491 | |
| | 1701 | Irrigation System - Major Repairs | $8,412 | $31,902 |
| 2021 | | No Expenditures Projected | | $0 |
| 2022 | | No Expenditures Projected | | $0 |
| 2023 | 403 | Concrete - Repair/Replace | $26,807 | |
| | 601 | Concrete Sidewalks - Repair | $1,315 | |
| | 1703 | Irrigation Controllers - Replace | $22,185 | $50,307 |
| 2024 | | No Expenditures Projected | | $0 |
| 2025 | 404 | Concrete Pavers - Repair/Replace | $5,901 | |
| | 602 | Concrete Pavers - Repair | $10,871 | $16,772 |
| 2026 | 403 | Concrete - Repair/Replace | $30,591 | $30,591 |
| 2027 | | No Expenditures Projected | | $0 |
| 2028 | 1701 | Irrigation System - Major Repairs | $11,962 | $11,962 |
| 2029 | 403 | Concrete - Repair/Replace | $34,909 | $34,909 |
| 2030 | | No Expenditures Projected | | $0 |
| 2031 | 404 | Concrete Pavers - Repair/Replace | $7,685 | $7,685 |
| 2032 | 403 | Concrete - Repair/Replace | $39,837 | $39,837 |
| 2033 | | No Expenditures Projected | | $0 |
| 2034 | | No Expenditures Projected | | $0 |
| 2035 | 403 | Concrete - Repair/Replace | $45,461 | |
| | 601 | Concrete Sidewalks - Repair | $2,231 | |
| | 1703 | Irrigation Controllers - Replace | $37,623 | $85,314 |
| 2036 | 1701 | Irrigation System - Major Repairs | $17,012 | $17,012 |
| 2037 | 404 | Concrete Pavers - Repair/Replace | $10,008 | |
| | 602 | Concrete Pavers - Repair | $18,436 | $28,443 |
| 2038 | 403 | Concrete - Repair/Replace | $51,878 | $51,878 |
| 2039 | | No Expenditures Projected | | $0 |
| 2040 | | No Expenditures Projected | | $0 |
| 2041 | 403 | Concrete - Repair/Replace | $59,202 | $59,202 |
| 2042 | | No Expenditures Projected | | $0 |
| 2043 | 404 | Concrete Pavers - Repair/Replace | $13,033 | $13,033 |
| 2044 | 403 | Concrete - Repair/Replace | $67,559 | |
| | 1701 | Irrigation System - Major Repairs | $24,192 | $91,751 |
| 2045 | | No Expenditures Projected | | $0 |

## Glossary of Commonly used Words and Phrases (provided by the National Reserve Study Standards of the Community Associations Institute)

**Asset or Component** – 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) have predictable Remaining Life expectancies, 4) above a minimum threshold cost, and 5) required by local codes.

**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 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 representatives.

**Deficit** – An actual (or projected) Reserve Balance, which is less than the Fully Funded Balance.

**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 the 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 the Reserve Study.

**Component Full Funding** – When the actual (or projected) cumulative Reserve balance for all components is equal to the Fully Funded Balance.

**Fully Fund Balance (aka – Ideal Balance)** – 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, and then summed together for an association total.

FFB = Replacement Cost X Effective Age / Useful 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 Balance above zero.
- **Component Full Funding:** Setting a Reserve funding goal of attaining and maintaining cumulative Reserves at or near 100% funded.
- **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 the "Component Fully Funding" method.

**Funding Plan** – An associations 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 accrued *Fund 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 "0" 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 (typically the beginning of the fiscal year) that the association has identified for use to defray the future repair or replacement of those major components in which the association is obligated to maintain. Also known as Reserves, Reserve Accounts, Cash Reserves. This is based upon information provided and is not audited.

**Reserve Provider** – An individual that prepares Reserve Studies. Also known as ***Aspen Reserve Specialties.***

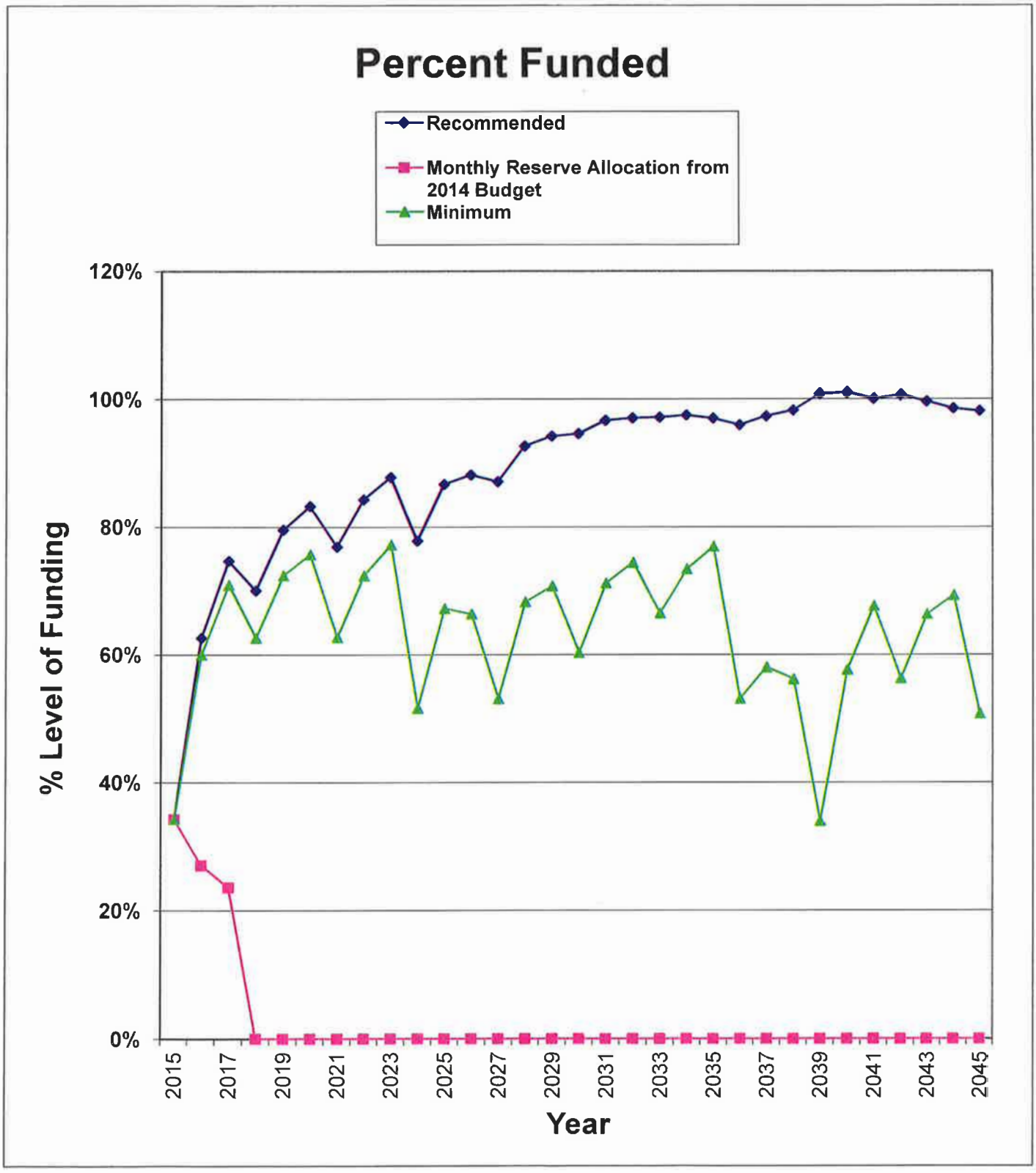
**Reserve Study** – A budget-planning tool that identifies the current status of the Reserve fund and a stable and equitable Funding Plan to offset the anticipated future major common area expenditures. The Reserve Study consists of two parts: The Physical Analysis and the Financial Analysis.

**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 that is greater that the Fully Funded Balance.

**Useful Life (UL)** – Also known as "Life Expectancy", or "Depreciable Life". The estimated time, in years, that a Reserve component can be expected to serve its intended function if properly constructed and maintained in its present application or installation.

*Percent Funded Graph For Reverie at Pine Creek*



*Component Inventory for Reverie at Pine Creek Village*

| Category | Asset # | Asset Name | UL | RUL | Best Cost | Worst Cost |
|---|---|---|---|---|---|---|
| Drive Materials | 403 | Concrete - Repair/Replace | 3 | 2 | $18,250 | $19,450 |
| | 404 | Concrete Pavers - Repair/Replace | 6 | 4 | $3,600 | $4,000 |
| Decking | 601 | Concrete Sidewalks - Repair | 12 | 8 | $850 | $1,000 |
| | 602 | Concrete Pavers - Repair | 12 | 10 | $6,750 | $7,250 |
| Prop. Identification | 803 | Mailboxes - Replace | N/A | | $0 | $0 |
| Light Fixtures | 1609 | Street Lights - Replace | N/A | | $0 | $0 |
| Irrig. System | 1701 | Irrigation System - Major Repairs | 8 | 5 | $6,500 | $7,000 |
| | 1703 | Irrigation Controllers - Replace | 12 | 8 | $14,400 | $16,800 |
| Landscaping | 1801 | Groundcover - Replenish | N/A | | $0 | $0 |
| | 1804 | Tree - Replacement | N/A | | $0 | $0 |
| Miscellaneous | 2020 | Mailbox Structure - Major Repairs | N/A | | $0 | $0 |

*Funding Summary For Reverie at Pine Creek*

| | |
|---|---|
| **Beginning Assumptions** | |
| Financial Information Source | Research With Client |
| # of units | 16 |
| Fiscal Year End | December 31, 2015 |
| Monthly Dues from 2014 budget | $2,380.00 |
| Monthly Reserve Allocation from 2014 Budget | $140.00 |
| Projected Starting Reserve Balance (as of 1/1/2015) | $5,741 |
| Reserve Balance: Average Per Unit | $359 |
| Ideal Starting Reserve Balance (as of 1/1/2015) | $16,756 |
| Ideal Reserve Balance: Average Per Unit | $1,047 |
| **Economic Factors** | |
| Past 20 year Average Inflation Rate (Based on CCI) | 4.50% |
| Current Average Interest Rate | 1.00% |
| **Current Reserve Status** | |
| Current Balance as a % of Ideal Balance | 34% |
| **Recommendations for 2015 Fiscal Year** | |
| Monthly Reserve Allocation | $955 |
| Per Unit | $59.69 |
| Minimum Monthly Reserve Allocation | $895 |
| Per Unit | $55.94 |
| Primary Annual Increases | 4.25% |
| # of Years | 30 |
| Special Assessment | $0 |
| Per Unit | $0 |
| **Changes From Prior Year (2014 to 2015)** | |
| Increase/Decrease to Reserve Allocation | $815 |
| as Percentage | 582% |
| Per Unit | $50.94 |

## Comp #: 2020 Mailbox Structure - Major Repairs

*Observations:*

* Some damage to paint from hail storm, but no other damage was noted. Stucco, stonework, and wood cross members were in good condition with no advanced deterioration noted.

* According to Homeowner Information Summary document, the PCVA (pine Creek Village Association) is responsible for maintenance on the mailbox kiosk.

* Therefore, separate funding is not required for this component.

*Location:* **Entrance to community**

*Quantity:* **See general notes**

*Life Expectancy:* **N/A** *Remaining Life:*

*Best Cost:* **$0**

*Worst Cost:* **$0**

*Source of Information:*

*General Notes:*

**Flagstone - 60 GSF**
**stucco - 180 GSF**
**trellis - 40 GSF**

## Comp #: 1804 Tree - Replacement

*Observations:*

* Trees appeared to be healthy and in good condition at time of site evaluation.
* It is very difficult to predict a replacement cycle for trees as there are several factors that will contribute to a tree dying. Factors such as disease, infestation of insects, heavy snow storms, etc. can all attribute to eventual tree replacement.
* Since it is difficult to predict when the replacement will be necessary, Reserve funding is typically not a factor. Therefore, unless requested by the association, Reserve funding will not be included as part of the study for this component.

*Location:* **Landscaped areas**

*Quantity:* **Numerous sizes/types**

*Life Expectancy:* **N/A** *Remaining Life:*

*Best Cost:* **$0**

*Worst Cost:* **$0**

*Source of Information:*

*General Notes:*

## Comp #: 1801 Groundcover - Replenish

*Observations:*

* Typically, associations will establish a line item in the operating budget to handle annual replacement of shrubs, plants, grass areas, etc.
* Therefore, separate Reserve funding is not necessary as long as funding has been established in a separate budget.
* If the association prefers to include a funding allowance for groundcover replenishment, then we would need to know how much and how often the current board of directors would prefer to set aside since this would be considered a discretionary expense.

*Location:* **Common areas**

*Quantity:* **Extensive area**

*Life Expectancy:* **N/A** *Remaining Life:*

*Best Cost:* **$0**

*Worst Cost:* **$0**

*Source of Information:*

*General Notes:*

## Comp #: 1703 Irrigation Controllers - Replace


*Observations:*

* Ages of controllers varied, with the majority being installed in 2012. No reported problems with the operation.

* Expect to replace irrigation controllers every 10 - 12 years if properly maintained and under normal conditions.

* Funding is for replacement with evapotranspiration based controllers as these are more efficient and can be controlled remotely by landscaping experts, saving the association irrigation water costs.

*Location:* **Attached to certain homes**

*Quantity:* **(8) Assorted controllers**

*Life Expectancy:* **12** *Remaining Life:* **8**

*Best Cost:* **$14,400**

$1800/controller; Estimate to replace

*Worst Cost:* **$16,800**

$2100/controller; Higher estimate

*Source of Information:* Cost Database

*General Notes:*

**10311 - Hunter Xcore, 5 stations, 3/2012**
**2917 - Hunter ProC, 12 stations, 3/2012**
**2953 - Rainbird ESPLX modular, 07MY01 ("only")**
**2989 - Rainbird, ESPLX modular, 10SE01, 12 active**
**3013 - Hunter ProC, 12 stations, 3/2012**
**3037 - Hunter Xcore, 3 stations, 3/2013**
**3061 - Hunter ProC, 9 active, July 2011**
**3073 - Rainbird, ESPLX modular, 24N006, 18 active**

## Comp #: 1701 Irrigation System - Major Repairs

*Observations:*

* No reported or observed problems with the system, as would be expected with newer systems.
* This line item is for repairs and replacement that lies outside the scope of routine maintenance: bulk sprinkler head replacement, bulk valve replacement, rerouting lateral lines, rewiring, etc.
* In order to ensure the funds are available for major repairs, we recommend reserving funds for these projects every 6 - 8 years.
* The funding on this line item is for major repairs and is not to be interpreted as complete irrigation system replacement.

*Location:* **Common areas**

*Quantity:* **Moderate sized system**

*Life Expectancy:* **8** *Remaining Life:* **5**

*Best Cost:* **$6,500**

Estimate for major repairs and renovating system

*Worst Cost:* **$7,000**

Higher estimate for more labor

*Source of Information:* Cost Database

*General Notes:*

**backflow is located at the end of drive by unit 2905**

## Comp #: 1609 Street Lights - Replace

*Observations:*

* These are the responsibility of the local public utility company, not the association.

* Therefore, Reserve funding is not required for this component.

*Location:* **Adjacent to streets**

*Quantity:* **(3) 25' lights**

*Life Expectancy:* **N/A** *Remaining Life:*

*Best Cost:* **$0**

*Worst Cost:* **$0**

*Source of Information:*

*General Notes:*

## Comp #: 803 Mailboxes - Replace

*Observations:*

* This line item is for the original mailboxes that were installed when construction of the community began in 2007/2008. Mailboxes are functional and in good condition (considering age) with no unusual conditions observed.

* According to Homeowner Information Summary document, the PCVA (pine Creek Village Association) is responsible for maintenance on the mailbox kiosk.

* Therefore, separate funding is not required for this component.

*Location:* **Entrance to community**

*Quantity:* **(1) 16 box CBU**

*Life Expectancy:* **N/A** *Remaining Life:*

*Best Cost:* **$0**

*Worst Cost:* **$0**

*Source of Information:*

*General Notes:*

## Comp #: 602 Concrete Pavers - Repair

*Observations:*

* All surfaces were even and in good condition with no deterioration or trip hazards noted at time of evaluation.

* This type of walkway is subject to shifting and settling, which can result in tripping hazards. Being a public access area, it is very important to maintain a level surface at all times.

*Therefore, we have established a line item for periodic inspections and repairs to maintain a safe surface at all times. The remaining life is based on observed conditions.

*Location:* **Landscaped island**

*Quantity:* **Approx. 1930 GSF**

*Life Expectancy:* **12** *Remaining Life:* **10**

*Best Cost:* **$6,750**

Allowance for major repairs every 12 years

*Worst Cost:* **$7,250**

Higher allowance for more repairs

*Source of Information:* Cost Database

*General Notes:*

## Comp #: 601 Concrete Sidewalks - Repair

**Picture Unavailable**

*Observations:*

* Similar to the concrete driveways, it is unlikely that all areas will fail and need to be replaced at the same time.

* Therefore, we set an allowance of 15% of the total area measured (125 GSF) to be repaired every 4 years.

* As the property ages, it is possible the percentage of repairs will need to be adjusted in future Reserve Study updates.

*Location:* **Common area sidewalks along drive**

*Quantity:* **Approx. 500 GSF**

*Life Expectancy:* **12** *Remaining Life:* **8**

*Best Cost:* **$850**
Allowance to repair 25% of area every 12 years

*Worst Cost:* **$1,000**
Higher allowance for more repairs

*Source of Information:* Cost Database

*General Notes:*

**center median - approx. 425 GSF**

**mailbox area - approx. 75 GSF**

**NOTE - It was reported "all owner sidewalks are a part of the owners' lot and are owner responsibility for maintenance"**

## Comp #: 404 Concrete Pavers - Repair/Replace

*Observations:*

* At the time of the site evaluation, we noted an area that was in process of being repaired for an unknown reason.

* Pavers themselves will have a long life expectancy, but over time, settling and deterioration will develop. Since pavers can be re-used, or new pavers can be purchased, we recommend establishing funding for major repairs, as opposed to complete replacement.

* The remaining life is based on current repairs and evidence of some other settling that is not being repaired.

*Location:* **Entrance to community**

*Quantity:* **Approx. 2400 GSF**

*Life Expectancy:* **6** *Remaining Life:* **4**

*Best Cost:* **$3,600**

Allowance for major repairs every 6 years

*Worst Cost:* **$4,000**

Higher allowance for more repairs

*Source of Information:* Cost Database

*General Notes:*

## Comp #: 403 Concrete - Repair/Replace

*Observations:*

* Evidence of past repairs, and some cracking/spalling noted throughout drive surfaces. When repairs are required, we recommend cutting out sections from expansion joint to expansion joint for best future results.
* It is unlikely that all concrete will fail and need to be replaced at the same time, therefore, we recommend Reserving to replace approximately 10% of the area (2,430 GSF) every 3 years.
* Coordinate this project with other concrete projects for best cost estimates based on quantity of work.
* Requested by client to extend remaining life to 2017, considering repairs were "just completed in Fall of 2013 and summer of 2014".

*Location:* **Private drives**

*Quantity:* **Approx. 24,300 GSF**

*Life Expectancy:* **3** *Remaining Life:* **2**

*Best Cost:* **$18,250**

Estimate to replace 10% of area every 3 years

*Worst Cost:* **$19,450**

Higher estimate for more repairs

*Source of Information:* Cost Database

*General Notes:*

**drive area - Approx. 21,210 GSF**

**curb and gutters - 3090 GSF**