

## VII. Reserve Studies

7.01 Policy: Ideally, the full cost associated with maintenance, repair, replacement and/or improvement of those components of the community for which the Association is responsible would already be set aside for that purpose, in reserve funds, when expenditures are necessary. This way, funds are available when needed, and all owners who benefit from those components of our community during their useful life contribute their fair share towards repair and replacement. To that end, the Board will conduct a reserve study, under the procedure outlined below, from time to time as it should determine such studies are necessary or appropriate to further this policy, but in any event at least every five (5) years.

### 7.02 Definitions:

- (a) A “Reserve Study” is a process involving physical inspection and analysis of the condition of Major Common Area Components and analysis of the Association's financial condition over time, which produces a Funding Plan that estimates the costs of repairing and replacing Major Common Area Components that the Association is obligated to maintain, repair, replace and/or improve during and at the end of their useful life.
- (b) A “Funding Plan” is a written document in some intelligible format that identifies Major Common Area Components, their Useful Life (including the source(s) of the estimates used), Remaining Useful Life (including the means of estimation and any special or unusual circumstances effecting the estimate), Replacement Costs, estimated cash requirements for maintenance, repair, replacement and/or improvement by year for the thirty (30) years following the Reserve Study, cash flow forecasts showing income from general common assessments, special assessments, reserve fund investment, and other sources as compared with estimated expenses, and estimates of unfunded liability for maintenance, repair, replacement and/or improvement, if any, in the aggregate and for each unit in the Association each year.
- (c) “Major Common Area Components” are those components in the community that the Association is obligated to maintain, repair, replace and/or improve that a) have a Replacement Cost of more than \$1,000.00, and b) have an Estimated Remaining Useful life of more than one (1) year, but less than thirty (30) years at the time of the

reserve study, as identified by the Board. Components of the community that would otherwise be Major Common Area Components except that their Remaining Useful Life is greater than thirty (30) years (such as the building foundations and structures) shall be identified in the Funding Plan along with their estimated Remaining Useful Life, but otherwise omitted from the Reserve Study.

- (d) “Remaining Useful Life” is the estimated number of years, computed from the date of the Reserve Study, that a Major Common Area Component is expected to continue to serve its intended purpose if given regular and proper maintenance, and may be computed by subtracting the number of years since original installation from Useful Life, estimated through physical inspection or by consultants or persons with specialized knowledge, training, experience, or education, or by any other means sufficiently reliable in the Board's discretion to give the Board a good faith basis for estimation.
- (e) “Replacement Cost” is the estimated cost, as of the date of the Reserve Study, to replace a Major Common Area Component, and may be derived from bids or cost estimates prepared by vendors, contractors, consultants or other persons with specialized knowledge, training, experience, or education, commercially available cost estimating manuals (like those distributed by R.S. Means Company, Inc., F.W. Dodge, Lee Saylor, Inc., and Marshall & Swift), past experience, or by any other means sufficiently reliable in the Board's discretion to give the Board a good faith basis for estimation.
- (f) “Useful life” is the estimated total number of years, computed from the date of original installation, that a Major Common Area Component is expected to serve its intended purpose if given regular and proper maintenance, and may be derived from a material manufacturer's warranty, commercially available manuals (like those distributed by R.S. Means Company, Inc., F.W. Dodge, Lee Saylor, Inc., and Marshall & Swift), estimates provided by consultants or persons with specialized knowledge, training, experience, or education, or by any other means sufficiently reliable in the Board's discretion to give the Board a good faith basis for estimation.

7.03 Procedure: When the Board should determine to conduct a Reserve Study under this policy, the procedure outlined below will generally be followed. The Board may choose to conduct the Reserve Study internally, with the assistance of the Association's officers, or through a duly appointed committee of the Board. The Board may, but need not, retain the services of qualified persons or entities to perform some or all of the steps generally outlined below. Once the Funding Plan described in Step 5, below, has been prepared, the Board will meet to consider and approve it, revising as necessary, whereupon

the Funding Plan, and any other documentation or information the Board may determine to present, will be distributed to the Members. Though the Board will generally follow a duly adopted Funding Plan, the Board may use Reserve Study results, and the developed Funding Plans, in whatever way it may deem appropriate under the circumstances and may make adjustments to the operating budgets, reserve levels, and any other aspects of the Association's financial plans as may be necessary or appropriate regardless of whether such adjustments conform with the currently adopted Funding Plan.

- (a) Step 1: Identification of the Major Common Area Components, referencing applicable provisions of the Association's Declaration, plats and/or maps.
- (b) Step 2: Estimation of the Remaining Useful Life of the identified Major Common Area Components, through a physical or visual inspection of the accessible portions of the Major Common Area Components, computation, or other appropriate means, including a combination of several approaches. The Estimated Useful Life of many Major Common Area Components may be materially altered by assumptions concerning ongoing maintenance, in which case, those assumptions or plans, including their impacts on the Association's annual operating budget, will be developed, and disclosed as a part of the Funding Plan.
- (c) Step 3: Estimation of the Replacement Cost of the Major Common Area Components.
- (d) Step 4: Estimation of the total annual contributions necessary in each of the thirty (30) years following the Reserve Study to defray the Replacement Cost of the Major Common Area Components during and at the end of their useful life.
- (e) Step 5: Preparation of the Funding Plan involves analysis of the amount of income, obtained through regular and special assessments, reserve fund investment, and any other source(s), that the Association will dedicate to reserves and/or to maintenance, repair, replacement or improvement of Major Common Area Components in each of the thirty (30) years following the Reserve Study by comparison to the total necessary annual contributions computed in Step 3 and will include a computation of the present reserve fund strength, measured in cash or as a percentage, and a recommendation for an appropriate reserve contribution rate, both in the aggregate and for each unit in the community. Depending on current Association finances and financial health, one of the three following funding models, or some combination of them, may be adopted:
  - (i) The fully funded model sets the reserve balance in the year of the Reserve Study at or near 100% of Replacement Costs for all identified Major Common Area Components, regardless of their

Remaining Useful Life.

- (ii) The threshold funded model, which sets reserve levels at or above some pre-determined threshold, either in cash or as a percentage of estimated annual contributions necessary in each year.
- (iii) The minimum funded model, which sets reserve levels such that the reserve account balance at the end of each year is as near \$0 as possible.

In preparing the Funding Plan, assessment calculations are adjusted to reach the identified funding goal model(s), and decisions will be made about the amount of regular assessments, the need for special assessments, and decisions to defer or forego certain maintenance, repair, replacement and/or improvement.