



PROFESSIONAL RESERVE STUDY



Heritage Park

3208 - 52nd Place NE, Tacoma, WA 98422

For:

Heritage Park Homeowners Association
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1.0 EXECUTIVE SUMMARY

1.1 DISCLOSURES REQUIRED BY STATE OF WA RCW 64.90.550

The undersigned makes the following disclosures required by RCW 64.90.550 to establish that this Reserve Study meets all requirements of the Washington Uniform Common Interest Ownership Act, Chapter 64.90 RCW:

- a. This Reserve Study was prepared with the assistance of a reserve study professional and that professional was independent;
- b. This Reserve Study includes all information required by RCW 64.90.550 Reserve Study – Contents; and
- c. This reserve study should be reviewed carefully. It may not include all common and limited common element components that will require major maintenance, repair, or replacement in future years, and may not include regular contributions to a reserve account for the cost of such maintenance, repair, or replacement. The failure to include a component in a reserve study, or to provide contributions to a reserve account for a component, may, under some circumstances, require the association to (1) defer major maintenance, repair, or replacement, (2) increase future reserve contributions, (3) borrow funds to pay for major maintenance, repair, or replacement, or (4) impose special assessments for the cost of major maintenance, repair, or replacement.

1.2 GENERAL DESCRIPTION OF PROPERTY

The subject development is approximately 40 acres and is located at the north side of 52nd Place NE in North Tacoma. There are 202 single family homes in this association with a central common park. According to Pierce County Records, the property was constructed in 1995. The development is relatively flat and consists of a public asphalt service drive with adjacent sidewalks throughout the development. The park contains a pergola, a playground, a sports court, and asphalt walking paths. Adjacent to the development, there are other condominiums and apartment buildings.

Like all properties, this property will require capital maintenance. We have itemized areas of capital maintenance that we anticipate over the next thirty (30) years along with estimated costs and estimated schedule of repair/replacement.

1.3 IMMEDIATE NECESSARY CAPITAL EXPENDITURES

Table 1.3 below shows the items that are in need of action immediately or within the near future. This is a summary; all tasks are explained in greater detail in Section 3.0 Physical Analysis.

Table 1.3: Summary of Immediate Necessary Capital Expenditures

Component	Cost	Urgency	Section
Concrete sidewalk repairs	\$10,000	2019	3.2

1.4 CURRENT STATUS OF CAPITAL RESERVE FUND

Table 1.4 below shows the current status of the Capital Reserve Fund and how it relates to Full Funding. The current Reserve Fund data was provided to us by Jill Doerflinger.

Table 1.4: Current Status of the Reserve Fund

Current Reserve Balance	\$23,229 as of February 28, 2019
Current Annual Reserve Fund Contribution	\$18,000
Average Per Unit Per Month	\$7.43
Planned Special Assessment(s)	N/A
Balance Required for Full Funding	\$45,847
Current Percentage of Full Funding	50.7%

1.5 RECOMMENDATIONS AND ASSUMPTIONS FOR FUTURE RESERVE CONTRIBUTIONS

The following table is a summary of our assumptions and several options that we have provided for funding contributions to the Reserve Fund. This is only a summary table; for a detailed view of our recommended funding plans, please see section 4 of this report.

Table 1.5: Recommendations and Assumptions for Future Reserve Contributions

Assumed Average Future Inflation Rate over 30 Years	3%
Assumed Average Future Interest Rate over 30 Years	3%
Option 1 – Immediate Full Funding	
Immediate Special Assessment Required <u>IF</u> the Association is to be Fully Funded Immediately	\$22,618
Average Initial Special Assessment per Unit	\$112
Annual Reserve Fund Contribution Required for the Reserve Fund to remain Fully Funded	\$8,625
Average Contribution per Unit per Month	\$3.45
Option 2 – Path to Full Funding in 5 Years	
Annual Reserve Fund Contribution Required for the Reserve Fund to be Fully Funded in <u>5 years</u>	\$13,420 of which \$4,795 will be “make-up” funding
Average Contribution per Unit per Month	\$5.54
Option 3 - Path to Full Funding in 10 Years	
Annual Reserve Fund Contribution Required for the Reserve Fund to be Fully Funded in <u>10 years</u>	\$11,200 of which \$2,574 will be “make-up” funding
Average Contribution per Unit per Month	\$4.62
Option 4 - Path to Full Funding in 30 Years*	
Annual Reserve Fund Contribution Required for the Reserve Fund to be Fully Funded in <u>30 years</u>	\$9,746 of which \$1,120 will be “make-up” funding
Average Contribution per Unit per Month	\$4.02
Option 5 – Baseline Funding*	
Annual Reserve Fund Contribution Required for Baseline Funding (Keeping the Reserve Fund above Zero over the 30 Year Period)	\$7,927
Average Contribution per Unit per Month	\$3.27

**These funding levels are required by WA State RCW 64.90.550. They are “bare minimum” funding plans and therefore carry a higher level of risk. Because of this, they are not recommended by Jeff Samdal & Associates.*

2.0 RESERVE STUDY BACKGROUND

2.1 PURPOSE OF THIS LEVEL 2 RESERVE STUDY

The primary purpose of this Level 2 Reserve Study is to provide the Association with a planning and budgeting tool to adequately maintain the property 30 years into the future without unexpected special assessments. This study is intended to provide the Association with an understanding of their property and to bring to light necessary immediate expenditures and reasonably anticipated future capital expenses that should be addressed.

Associations have a responsibility to their members to adequately maintain their properties and our Reserve Studies provide our clients with the tools to implement capital maintenance. When small issues and maintenance items are addressed prior to becoming larger problems, there is typically a significant overall savings for a property owner. Properly maintained properties maintain higher property values than those with an abundance of deferred maintenance.

An additional benefit of this Reserve Study is that it is one of the qualifications required for Associations to obtain FHA approval (which is very helpful in selling or refinancing individual units). Many other sources of funding are also beginning to require them as well.

2.2 WASHINGTON STATE RCW 64.90.550

As of July 1, 2018, WA State RCW 64.90.550 defined a Reserve Study in WA State as the following:

- (1) Any reserve study is supplemental to the association's operating and maintenance budget.
- (2) A reserve study must include:
 - (a) A reserve component list, including any reserve component, the replacement cost of which exceeds one percent of the annual budget of the association, excluding contributions to the reserves for that reserve component. If one of these reserve components is not included in the reserve study, the study must explain the basis for its exclusion. The study must also include quantities and estimates for the useful life of each reserve component, the remaining useful life of each reserve component, and current major replacement costs for each reserve component;
 - (b) The date of the study and a disclosure as to whether the study meets the requirements of this section;
 - (c) The following level of reserve study performed:
 - (i) Level I: Full reserve study funding analysis and plan;
 - (ii) Level II: Update with visual site inspection; or
 - (iii) Level III: Update with no visual site inspection;
 - (d) The association's reserve account balance;
 - (e) The percentage of the fully funded balance to which the reserve account is funded;
 - (f) Special assessments already implemented or planned;
 - (g) Interest and inflation assumptions;
 - (h) Current reserve account contribution rates for a full funding plan and a baseline funding plan;
 - (i) A recommended reserve account contribution rate for a full funding plan to achieve one hundred percent fully funded reserves by the end of the thirty-year study period, a recommended reserve account contribution rate for a baseline funding plan to maintain the reserve account balance above zero throughout the thirty-year study period without special assessments, and a reserve account contribution rate recommended by the reserve study professional;

This reserve study meets the qualifications of WA State RCW 64.90.550

(j) A projected reserve account balance for thirty years based on each funding plan presented in the reserve study;

(k) A disclosure on whether the reserve study was prepared with the assistance of a reserve study professional, and whether the reserve study professional was independent; and

(l) A statement of the amount of any current deficit or surplus in reserve funding expressed on a dollars per unit basis. The amount is calculated by subtracting the association's reserve account balance as of the date of the study from the fully funded balance, and then multiplying the result by the fraction or percentage of the common expenses of the association allocable to each unit; except that if the fraction or percentage of the common expenses of the association allocable vary by unit, the association must calculate any current deficit or surplus in a manner that reflects the variation.

(3) A reserve study must also include the following disclosure:

"This reserve study should be reviewed carefully. It may not include all common and limited common element components that will require major maintenance, repair, or replacement in future years, and may not include regular contributions to a reserve account for the cost of such maintenance, repair, or replacement. The failure to include a component in a reserve study, or to provide contributions to a reserve account for a component, may, under some circumstances, require the association to (1) defer major maintenance, repair, or replacement, (2) increase future reserve contributions, (3) borrow funds to pay for major maintenance, repair, or replacement, or (4) impose special assessments for the cost of major maintenance, repair, or replacement."

2.3 SCOPE AND METHODOLOGY

This Level 2 Reserve Study has been prepared based on Community Associations Institute (CAI) standards and our proposal to the Association dated March 8, 2019, which was based on our correspondence with Jill Doerflinger and the previous Reserve Studies that we have prepared for this property.

Information Gathering

Our initial task was to gather information regarding the property such as financials, drawings, maintenance records, and historical background. This Reserve Study is a reflection of the information provided to us.

Physical Analysis

Following the initial correspondence regarding the property, we performed an inspection of the property on May 16, 2019 so that we may provide an opinion of the current condition of the common building components. This is also the basis for our opinion of the anticipated capital needs that the Association will be responsible for over the next 30 years. This was a visual inspection and no invasive or destructive testing was performed. This visual inspection focused on the typical features of a building and surrounding property such as structure, drainage, roof, exterior, electrical, plumbing, HVAC systems, and interior finishes. This inspection was limited to accessible and visible areas.

The physical analysis included the following tasks:

1. Identification of Anticipated Capital Expenses: We consider anticipated capital expenses to be major expenses that can be reasonably predicted. Anticipated capital expenses are not considered routine maintenance such as routine landscaping or touch-up paint; routine maintenance should be taken care of through an operating budget. Nor do we consider anticipated capital needs to be expenditures that result from an accident or an unpredictable event, such as flood damage or earthquake damage; these items should be paid for by insurance.

The general criteria that we used to define an anticipated capital expense that warranted inclusion on our Itemized capital expenses is the following:

- The component must be a common component that is the responsibility of the Association.
- Repair or replacement of the component is significant and not budgeted for in the operating budget.

- The component repair or replacement occurs within the period of this study.

2. Estimated Replacement Schedule: Our opinions of the various life expectancy estimates that we prepared are based on a combination of the following:

- National Association of Home Builders (NAHB) averages
- Building Owners and Managers (BOMA) averages
- Product vendors and suppliers
- Our company database

3. Estimated Replacement Cost: Our opinions of the various costs for repair or replacement are based on a combination of the following:

- R.S. Means
- Product vendors and suppliers
- Our company database

4. Financial Analysis: We performed an analysis on the financial needs and current status at the property. The financial analysis provides the following:

- Forecasts the anticipated Capital Reserves necessary at the property over the next 30 years.
- Projects future Capital Reserve balances and determines the appropriate funding levels necessary.
- Reviews the current funding plan and current financial position.
- Provides our recommended annual contribution to the Reserve Fund to maintain Full Funding.

2.4 SOURCES OF INFORMATION

The following people provided us information for this study:

- Jill Doerflinger, Property Manager, HOA Community Solutions
- Greg Devey, HOA Board President

The following documents were viewed as part of this study

- Survey Plat Maps (from previous study)

The physical inspection of the property occurred on the following date:

- May 16, 2019

2.6 DEFINITIONS

Assumed Inflation - Our assumed inflation rate is our best guess of the long term average of the inflation rate over the next thirty years; it is not based on the current Consumer Price Index (CPI). Our number is much closer to the historical average of the CPI over the previous 25 years.

Capital Reserves Balance - Actual or projected funds as of a particular point in time that the Association has identified for use to defray the future repair or replacement of those major components which the Association is obligated to maintain. Also known as reserves, reserve accounts, cash reserves.

Component - An individual line item in the Reserve Study developed or updated in the physical analysis. These elements form the building blocks of the Reserve Study. Components typically are: 1) Association responsibility, 2) with limited useful life expectancies, 3) predictable remaining useful life expectancies, 4) above a minimum threshold cost, and 5) as required by local codes.

Component Inventory - The task of selecting and quantifying reserve components. This task is accomplished through onsite visual observations, review of Association design and organizational documents, and a review of established Association precedents.

Deficit - An actual (or projected) reserve balance less than the fully funded balance. The opposite would be a surplus.

Effective Age - The difference between useful life and remaining useful life. Not always equivalent to chronological age, since some components age irregularly. Used primarily in computation.

Financial Analysis - The portion of a Reserve Study where current status of the reserves measured as cash or percent funded) and a recommended reserve contribution rate (reserve funding plan) are derived. The financial analysis is one of the two parts of a Reserve Study.

Fully Funded - 100% funded. When the actual (or projected) reserve balance is equal to the fully funded balance.

Fully Funded Balance (FFB) - Total accrued depreciation. An indicator against which actual (or projected) reserve balance can be compared. In essence, it is the reserve balance that is proportional to the current Repair/replacement cost and the fraction of life "used up". This number is calculated for each component, then summed together for an Association total.

Percent Funded - The ratio, at a particular point of time (typically the beginning of the fiscal year), of the actual (or projected) reserve balance to the fully funded balance, expressed as a percentage.

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.

2.7 FREQUENTLY ASKED QUESTIONS ABOUT RESERVE STUDIES

What is a reserve study?

Reserve studies are comprehensive reports that are used as budget planning tools that will assess the current financial health of the reserve fund as well as create a plan for future funding to offset anticipated major future common area expenditures.

According to *Community Association Institute's Best Practices, Reserve Studies/Management*: "There are two components of a reserve study—a physical analysis and a financial analysis. During the physical analysis, a reserve provider evaluates information regarding the physical status and repair/replacement cost of the association's major common area components. To do so, the provider conducts a component inventory, a condition assessment, and life and valuation estimates. A financial analysis assesses only the association's reserve balance or fund status (measured in cash or as percent funded) to determine a recommendation for an appropriate reserve contribution rate (funding plan)."

What are the different types of reserve studies?

Reserve studies fit into one of three categories: Full; Update with Site Visit; and Update with No Site Visit. They are frequently called Level 1, Level 2, and Level 3 respectively (as defined by Washington State RCW 64.90.550).

Level 1: A full reserve study – the reserve provider conducts a component inventory, a condition assessment (based upon on-site visual observations), and life and valuation estimates to determine both a fund status and a funding plan. They typically extend 30-years. A full reserve study must be in place before a Level 2 or Level 3 can take place.

Level 2: An update with site visit (on-site review) -- the reserve study provider conducts a component inventory (verification only, not quantification), a condition assessment (based on on-site visual observations), and life and valuation estimates to determine both a fund status and a funding plan. A Level 2 update is performed every third year, with the first one scheduled 3 years after the Level 1 was completed.

Level 3: An update with no site visit (off-site review) -- the reserve study provider conducts life and valuation estimates to determine a fund status and a funding plan. A Level 3 update is performed annually, except in years when a Level 1 or Level 2 has been conducted.

When should associations obtain reserve studies?

Most association experts would agree that an initial full 30-year reserve study should be conducted sooner rather than later if one is not already in place. They are typically updated annually after that to account for things such as inflation and any adjustments in funding levels, budgets, repairs or replacements.

If you follow Washington State RCW 64.90.555 (which we recommend), your reserve study schedule would look like this:

- Year 1: Level 1 full 30-year study
- Years 2, 3: Level 3 annual updates
- Year 4: Level 2 update with site visit
- Years 5, 6: Level 3 annual updates
- Year 7: Level 2 update with site visit

The cycle of Level 2 and Level 3 updates continues indefinitely. A Level 1 full study is not necessary after year 1.

What are the benefits of a Reserve Study?

Benefits of reserve studies, in short, include improved property maintenance (and therefore value) as well as complying with the law. In more detail:

Complying with Washington State law

View the rules regarding Reserve Studies and Reserve Accounts here:

<http://app.leg.wa.gov/RCW/default.aspx?cite=64.90> - Sections 535, 540, 545, 550, 555, and 560

Fulfilling lender requirements (such as FHA)

Many lenders are requiring up-to-date reserve studies that indicate adequate financial health before they lend. Having a reserve study in place that shows a healthy funding plan before a homeowner finds a buyer could save significant time in the closing process.

Help maintain the property's value and appearance

A reserve study helps maintain the property's value and the property owner's investment. By identifying and budgeting for future repairs or replacement (anticipated capital expenditures), the property's common elements continue to look attractive and well-kept, adding to the community's overall quality of life. Many features, when properly maintained, can also benefit from an extended lifespan resulting in overall cost savings to the owners. Well maintained properties almost always have higher resale values than those that have been neglected.

Establishing sound financial planning and budget direction

A comprehensive reserve study lays out a schedule of anticipated major repairs or replacements to common property elements and applies cost estimates to them. It typically spans a 30-year period, and will serve as a financial planning tool for the association to use when determining homeowners dues and contributions to the reserve fund.

Reducing the need for special assessments

An association that has properly implemented their reserve study will strategically collect fees over time from homeowners (via monthly dues) rather than need large sums of cash unexpectedly (special assessments). Therefore, the need for special assessments should be minimized because expenses have already been planned for and the funds exist when needed.

Fulfilling the board of directors' fiduciary responsibility

Board members of community associations have a fiduciary responsibility to their members. Directors are legally bound to use sound business judgment in guiding the association and cannot ignore major capital expenditures or eliminate them from the budget.

3.0 PHYSICAL ANALYSIS

3.1 COMPONENT ASSESSMENT AND VALUATION

The component assessment and valuation of the itemized capital expenses on this property was done by providing our opinion of Useful Life, Remaining Useful Life, and Repair or Replacement Costs for the Reserve components. Table 3.1A lists this component inventory, and is based on the information that we were provided and on onsite visual observations.

The remainder of “Section 3.0 Physical Analysis” details each of the items in Table 3.1A using narratives and photos. They are meant to be read together.

Table 3.1B is a summary of expenses, grouped according to their expense category. Chart 3.1B is a pie chart illustrating the same.

Table 3.1A Key:

Quantity - The total quantity of each component.

Units - SF = Square Feet SY = Square Yards LF = Lineal Feet
EA = Each LS = Lump Sum SQ = Roofing Square (10 ft X 10 ft)

Cost/Unit - The cost of a component. The unit cost is multiplied by the component’s quantity to obtain the total estimated replacement cost for the component.

Remaining Life – An opinion of the probable remaining life, in years, that a reserve component can be expected to continue to serve its intended function. Replacements anticipated to occur in the initial or base year have “zero” Remaining Life.

Useful Life - Total Useful Life or Depreciable Life. An opinion of the total probable life, in years, that a reserve component can be expected to serve its intended function in its present condition.

Table 3.1A: Component Assessment and Valuation

Note: All numbers provided are the engineer's opinion of probable life and cost in 2019 dollars. Exact numbers may vary.

Component	Quantity	Units	Cost/Unit	Remaining Life (Years)	Useful Life (Years)	Total Cost	Cost per Unit	Avg. Cost per Unit per Year
3.2 SITE								
Entrance monuments maintenance allotment	2	EA	\$2,000	3	10	\$4,000	\$20	\$1.98
Replace common wood fencing	800	LF	\$42	24	25	\$33,600	\$166	\$6.65
Stain wood fencing	1,590	LF	\$2.95	4	5	\$4,691	\$23	\$4.64
Resurface asphalt paths in park	8,300	SF	\$3.15	16	40	\$26,145	\$129	\$3.24
Concrete sidewalk repairs	1	LS	\$10,000	0	5	\$10,000	\$50	\$9.90
Resurface basketball court	4,000	SF	\$1.85	5	20	\$7,400	\$37	\$1.83
Replace basketball back boards	2	EA	\$1,000	8	10	\$2,000	\$10	\$0.99
Picnic tables and benches allotment	1	LS	\$3,000	2	10	\$3,000	\$15	\$1.49
Playground equipment replacement	1	LS	\$24,000	17	20	\$24,000	\$119	\$5.94
Playground bark chips	1	LS	\$2,500	2	3	\$2,500	\$12	\$4.13
<i>Asphalt roads are municipally maintained</i>								
<i>Storm system is maintained entirely by municipality</i>								
<i>Landscaping and irrigation systems are maintained via the operating budget</i>								
<i>Mailboxes are owned by the U.S. Post Office</i>								
<i>Rockerries should have a life beyond the duration of this study</i>								
<i>Concrete lights in the park should have a lifespan outside the duration of this study</i>								
3.3 STRUCTURE								
<i>No structural expenditures budgeted</i>								
3.4 ROOFING								
Resurface roof of pergola	9	SQ	\$450	13	30	\$4,050	\$20	\$0.67
3.5 EXTERIOR								
<i>Painting of the pergola is done by the residents and paint is purchased outside the Reserve Study</i>								
3.6 ELECTRICAL SYSTEMS								
<i>No common electrical systems</i>								

	Component	Quantity	Units	Cost/Unit	Remaining Life (Years)	Useful Life (Years)	Total Cost	Cost per Unit	Avg. Cost per Unit per Year
3.7	PLUMBING SYSTEMS								
	<i>No common plumbing systems</i>								
3.8	HVAC SYSTEMS								
	<i>No common HVAC systems</i>								
3.9	ELEVATORS								
	<i>No elevators on property</i>								
3.10	FIRE DETECTION & SUPPRESSION								
	<i>No common fire detection and suppression systems</i>								
3.11	COMMON INTERIOR FINISHES								
	<i>No common interior areas</i>								
3.12	MISCELLANEOUS MECHANICAL								
	<i>No miscellaneous mechanical items</i>								
3.13	AMENITIES								
	<i>No amenities not mentioned in other areas of this table</i>								
Average Cost Per Unit Per Year									\$41

3.2 SITE

The address of this property is 3208 - 52nd Place NE, Tacoma, WA 98422.



Aerial image of property (courtesy of Google Earth)

General Description of Site

The subject development is approximately 40 acres and is located at the north side of 52nd Place NE in North Tacoma. There are 202 single family homes in this association with a central common park. According to Pierce County Records, the property was constructed in 1995. The development is relatively flat and consists of a public asphalt service drive with adjacent sidewalks throughout the development. The park contains a pergola, a playground, a sports court, and asphalt walking paths. Adjacent to the development, there are other condominiums and apartment buildings.

Entrance Monuments

There are entrance monuments at the two entrances to Heritage Park. The monuments will require a small amount of maintenance in the form of cleaning, painting, sealing, and tuck-pointing of the masonry. This level of maintenance has been scheduled every 10 years.



West Entrance Monument



South Entrance Monument

Fencing

The homeowners association is responsible for the maintenance and eventual replacement of the common wood fencing on both sides of the south boulevard near at the south entrance to this property. We understand that this wood fencing was recently replaced in 2018. This fence should have a total lifespan of 25 years if it is maintained by staining and spot replacement every 5 years.

We understand that the fencing along the city streets on the perimeter of this property is not the responsibility of the HOA.



Common Fencing



Municipally Owned Fencing

Asphalt

All of the streets in this development are public and are not maintained via the homeowners association. However, the HOA is responsible for the maintenance and eventual replacement of the asphalt walking paths in the community park. As this walking path will not receive any vehicle traffic, we have assumed that the asphalt walking paths will have a 40-year service life before an asphalt overlay is necessary.



Typical Public Street



Asphalt Walking Path in Park

Storm System

The storm system on this property is public and is not maintained via the homeowners association.



Typical Storm Drain

Concrete Sidewalks and Curbing

The concrete sidewalks and square concrete curbing that are adjacent the roads within the development are maintained by the homeowners association, while the sidewalks along the main roads outside of this development are municipally maintained. There are currently concrete sidewalk repairs that are necessary. We have assumed that a similar level of concrete sidewalk maintenance will be necessary every 5 years.



Sidewalk in Need of Repair

Basketball Court

There is a basketball court in the common park. We have budgeted for resurfacing of the basketball court every 20 years and replacement of the backboard assemblies every 10 years. However, this duration could vary up or down depending on the quantity of use and care that is taken.



Basketball Court

Picnic Tables and Benches

There are picnic tables and benches in the common park. Rather than budget for each bench to be replaced, we have simply budgeted for a small allotment for replacement of some of this equipment as necessary every 10 years.



Typical Park Benches



Typical Park Benches

Pergola

There is a pergola in the common park. This pergola is relatively simple. We have assumed that the structure and cladding of this pergola will have a lifespan beyond the duration of this study if maintained by paint and stain. We understand that the homeowners themselves periodically paint the pergola and that no Reserve Funding will be used to paint this structure. We have included in the Reserve Study the cost to resurface the roof of this pergola every 30 years as the roof surfacing has a 30-year nominal service life.

We understand that this pergola was hit by a vehicle and repaired approximately 5 years ago via an insurance claim.



Pergola

Landscaping and Irrigation

Generally, landscaping and irrigation systems are maintained via the operating budget. The areas of common landscaping are limited to the areas around the entrance monuments; the thoroughfares; and the common park and are relatively simple. We understand that the landscaping and irrigation systems in all such areas are completely maintained via the operating budget. Therefore, no funding has been allotted to these items in the Reserve Study.

Playground

There is a playground structure in the common park that was recently installed in 2016. This playground equipment consists of metal and plastic. We have assumed that minor maintenance of the playground equipment can occur by the residence of this community and that staining can occur via the operating budget. Therefore, we have assumed a total lifespan of 20 years for the playground structure.

The two swing sets should have a lifespan beyond the duration of this study. Periodically, smaller components of these swing sets will need to be replaced, which are small costs.

We have included the addition of playground chips every 3 years in the Reserve Study and we have done so.



Playground



One of Two Swing Sets



Two of Two Swing Sets



Close-up of Swing Set Hardware

Flag Pole

The flag pole in the common park should have a lifespan beyond the duration of this study. The flag will need to be replaced; however, this is relatively inexpensive and is not factored into the Reserve Study.



Flag Pole

Mailboxes Kiosks

The mailbox kiosks are owned by the United States Post Office and are not the responsibility of the homeowners association.



Typical Mailbox Kiosk



Typical Mailbox Kiosk

Rock Wall

There is a rock wall along the south entrance. This wall should be relatively easy to maintain via the operating budget and landscaping crew if there is rocks that fall out of place. Therefore, no funding has been designated for this rock wall from the Reserve Fund.



Rock Wall



Rock Wall

Concrete Lights

The majority of the concrete lights in this development are located along the streets and are the responsibility of the local municipality. The concrete lights in the park are the responsibility of the homeowners association; however, these lights should have a life span beyond the duration of this study, unless a vehicle hits these lights. In which case, that should be paid for via the offending driver’s insurance. The replacement of the light ballasts should be paid for via the operating budget.



Typical Concrete Light

3.3 STRUCTURE

There are no common structures on this property.

3.4 ROOFING

Pergola Roof

The only common roof surfacing on this property is that of the pergola. We have budgeted to resurface this roof every 30 years as the current roof surface has a nominal lifespan of 30 years.



Roof of Pergola

3.5 EXTERIOR

There are no common exteriors on this property.

3.6 ELECTRICAL SYSTEMS

The lighting replacement is addressed in the Site section of this report.

3.7 PLUMBING SYSTEMS

There are no common plumbing systems on this property that will require Reserve Funds within the duration of this study.

3.8 HVAC SYSTEMS

There are no common HVAC Systems on this property.

3.9 ELEVATORS

There are no common elevators on this property.

3.10 FIRE DETECTION AND SUPPRESSION

There are no common fire detection and suppression systems on this property.

3.11 COMMON INTERIOR FINISHES

There are no common interior finishes on this property that will need to be maintained via the Reserve Fund.

3.12 MISCELLANEOUS MECHANICAL

There are no miscellaneous mechanical items not addressed in other areas of this report.

3.13 AMENITIES

There are no amenities on this property that are not accounted for in other sections of this report.

3.20 SUMMARY OF ANNUAL ANTICIPATED EXPENSES

Using the conclusions described throughout “Section 3.0 Physical Analysis”, the following Table 3.20 lists the annual anticipated capital expenses for each reserve item in the year that we believe is most probable. All of these anticipated expenses already have inflation factored into them at the assumed level that is listed in “Section 4.3 Assumptions for Future Interest Rate and Inflation”.

LEVEL 2 RESERVE STUDY FOR HERITAGE PARK

TABLE 3.20: ANNUAL CAPITAL EXPENSES

Action Required		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
3.2	SITE																	
	Entrance monuments maintenance allotment				\$4,371										\$5,874			
	Replace common wood fencing																	
	Stain wood fencing					\$5,279					\$6,120					\$7,095		
	Resurface asphalt paths in park																	\$41,955
	Concrete sidewalk repairs	\$10,000					\$11,593					\$13,439					\$15,580	
	Resurface basketball court						\$8,579											
	Replace basketball back boards									\$2,534								
	Picnic tables and benches allotment			\$3,183										\$4,277				
	Playground equipment replacement																	
	Playground bark chips			\$2,652			\$2,898			\$3,167			\$3,461			\$3,781		
3.3	STRUCTURE																	
	<i>No structural expenditures budgeted</i>																	
3.4	ROOFING																	
	Resurface roof of pergola														\$5,948			
3.5	EXTERIOR																	
	Painting of the pergola is done by the residents and paint is purchased outside the Reserve Study																	
3.6	ELECTRICAL SYSTEMS																	
	No common electrical systems																	
3.7	PLUMBING SYSTEMS																	
	No common plumbing systems																	
3.8	HVAC SYSTEMS																	
	No common HVAC systems																	
3.9	ELEVATORS																	
	No elevators on property																	
3.10	FIRE DETECTION & SUPPRESSION																	
	No common fire detection and suppression systems																	
3.11	COMMON INTERIOR FINISHES																	
	No common interior areas																	
3.12	MISCELLANEOUS MECHANICAL																	
	No miscellaneous mechanical items																	
3.13	AMENITIES																	
	<i>No amenities not mentioned in other areas of this table</i>																	
ANNUAL EXPENSES BY YEAR		\$10,000	\$0	\$5,835	\$4,371	\$5,279	\$23,070	\$0	\$0	\$5,700	\$6,120	\$13,439	\$3,461	\$4,277	\$11,822	\$10,876	\$15,580	\$41,955

LEVEL 2 RESERVE STUDY FOR HERITAGE PARK

TABLE 3.20: ANNUAL CAPITAL EXPENSES

Action Required		2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
3.2	SITE														
	Entrance monuments maintenance allotment							\$7,894							
	Replace common wood fencing								\$68,302						
	Stain wood fencing			\$8,225					\$9,535					\$11,053	
	Resurface asphalt paths in park														
	Concrete sidewalk repairs				\$18,061					\$20,938					\$24,273
	Resurface basketball court									\$15,494					
	Replace basketball back boards		\$3,405										\$4,576		
	Picnic tables and benches allotment						\$5,748								
	Playground equipment replacement	\$39,668													
	Playground bark chips	\$4,132			\$4,515			\$4,934			\$5,391			\$5,891	
3.3	STRUCTURE														
	<i>No structural expenditures budgeted</i>														
3.4	ROOFING														
	Resurface roof of pergola														
3.5	EXTERIOR														
	Painting of the pergola is done by the residents and paint is purchased outside the Reserve Study														
3.6	ELECTRICAL SYSTEMS														
	No common electrical systems														
3.7	PLUMBING SYSTEMS														
	No common plumbing systems														
3.8	HVAC SYSTEMS														
	No common HVAC systems														
3.9	ELEVATORS														
	No elevators on property														
3.10	FIRE DETECTION & SUPPRESSION														
	No common fire detection and suppression systems														
3.11	COMMON INTERIOR FINISHES														
	No common interior areas														
3.12	MISCELLANEOUS MECHANICAL														
	No miscellaneous mechanical items														
3.13	AMENITIES														
	<i>No amenities not mentioned in other areas of this table</i>														
ANNUAL EXPENSES BY YEAR		\$43,800	\$3,405	\$8,225	\$22,576	\$0	\$5,748	\$12,828	\$77,837	\$36,432	\$5,391	\$0	\$4,576	\$16,945	\$24,273

4.0 FINANCIAL ANALYSIS

The financial analysis in this Reserve Study is a proprietary system that was developed by Jeff Samdal & Associates. We have provided the funding method that we believe will most adequately fund the reserves of this Association.

4.1 CURRENT FINANCIAL INFORMATION AND CURRENT FUNDING PLAN

The Association's Reserve Fund balance was \$12,551 as of February 28, 2019 (Balance provided by Jill Doerflinger). According to our calculations detailed in this report, the Reserve Fund balance required for "Full Funding" of this property at this time is \$45,847. Therefore, the property is 50.7% funded.

There is not a current regular Reserve Fund contribution. This study will help to guide the Board in setting a regular Reserve Fund contribution.

This property is currently
50.7% funded.

4.2 RECOMMENDED RESERVE FUNDING PLAN

Full Funding is the ideal position for any property and represents a strong financial position. We recommend that all properties be Fully Funded, as Full Funding allows Associations to maintain their properties adequately and minimizes their risk of unplanned special assessments.

Ideally, the Association should be Fully Funded immediately; however, we recognize that financial realities can sometimes make this difficult. Therefore, we have provided three different plans to get the Association Fully Funded within three different time frames: Immediately, Within Five Years, and Within Ten Years. It is to the Association's benefit to be Fully Funded as soon as possible.

Our funding recommendations are as follows:

Option One: Immediate Full Funding

If the Association desires to be Fully Funded immediately, then based on the anticipated expenditures the Association will need to immediately contribute a total of \$22,618 to the Reserve Fund. This translates to an average of \$112 per unit. Following this initial contribution, the funding plan necessary to maintain a Fully Funded Capital Reserve Fund for the duration of this study will be a total property contribution of \$8,625 per year in the initial year, which translates to \$3.45 per unit per month. This annual contribution will need to be increased 3% each subsequent year to maintain Full Funding and to account for inflation.

For a detailed look at the annual funding contribution necessary per year, see Table 4.5 "Reserve Fund Balance Sheet" (Section 4.5).

-OR-

Option One

Average Immediate
Contribution Per Unit:

\$112

Avg. Contribution
Thereafter Per Unit Per
Month:

2020 \$3.45

(with 3% annual
increase thereafter)

Option Two: Full Funding Within Five Years

There is currently a “full funding” deficiency of \$22,618. This option makes up this deficiency over the next five years. Starting in 2020 for five years through 2024, the Association will make up their Reserve Fund deficiency by contributing \$13,420 annually (which includes \$4,795 in make-up funds and \$8,625 in capital maintenance funds that will increase annually with inflation). This translates to an average of \$5.54 per unit per month in the initial year.

If this plan is followed, the Association will be Fully Funded by the start of 2025. From this point on, the funding plan will be identical to funding plan listed above in the “Immediate Full Funding” option to maintain Full Funding. This means that the Association will reduce their Reserve Fund contribution to \$9,999 in 2025, which translates to \$4.13 per unit per month. This 2025 annual contribution will need to be increased 3% each subsequent year (to account for inflation) for the duration of this 30 year study to maintain Full Funding and to account for inflation.

For a detailed look at the annual funding contribution necessary per year, see Table 4.5 “Reserve Fund Balance Sheet” (Section 4.5).

-OR-

Option Three: Full Funding Within Ten Years – RECOMMENDED PLAN

There is currently a “full funding” deficiency of \$22,618. This option makes up this deficiency over the next ten years. Starting in 2020 for ten years through 2029, the Association will make up their Reserve Fund deficiency by contributing \$11,200 annually (which includes \$2,574 in make-up funds and \$8,625 in capital maintenance funds that will increase annually with inflation). This translates to an average of \$4.62 per unit per month in the initial year.

If this plan is followed, the Association will be Fully Funded by the start of 2030. From this point on, the funding plan will be identical to funding plan listed above in the “Immediate Full Funding” option to maintain Full Funding. This means that the Association will reduce their Reserve Fund contribution to \$11,592 in 2030, which translates to \$4.78 per unit per month. This 2030 annual contribution will need to be increased 3% each subsequent year for the duration of this 30 year study to maintain Full Funding and to account for inflation.

For a detailed look at the annual funding contribution necessary per year, see Table 4.5 “Reserve Fund Balance Sheet” (Section 4.5).

Other funding options are also possible. Section 4.6 details other common funding methods as well. It is up to the Association to decide which funding option is best for them.

<u>Option Two</u>	
Average Contributions Per Unit Per Month:	
2020	\$5.54
Increasing at 3% per year through:	
2024	\$5.98
At year end, full funding will be achieved. Then:	
2025	\$4.13
(with 3% annual increase thereafter)	

<u>Option Three</u>	
Average Contributions Per Unit Per Month:	
2020	\$4.62
Increasing at 3% per year through:	
2029	\$5.70
At year end, full funding will be achieved. Then:	
2030	\$4.78
(plus 3% annual increase thereafter)	

4.3 OTHER REQUIRED FUNDING PLAN OPTIONS

Per Washington State RCW 64.90.550, our Reserve Study is required to provide the following funding plans:

- **30-Year Make up** - Funding Plan necessary for the Association Reserve Fund to reach a Full Funding Level in 30 years.
- **Baseline Funding** - Minimum level of funding required in order to maintain the Reserve Fund above zero while paying for all components listed in Table 3.1 - Component Assessment and Valuation Table.

Special Note: Because these are “bare minimum” funding options that increase an Association’s risk for special assessments (and financial instability), we do not recommend either of these funding options. We recommend that the Association obtain a level of Full Funding as soon as possible to ensure that the Association has the resources necessary to adequately maintain its collective property and minimize the burden of special assessments.

These required options are as follows:

Option Four: Full Funding in 30 Years

There is currently a “full funding” deficiency of \$22,618. This option makes up this deficiency over the next thirty years. Starting in 2020 for thirty years through 2049, the Association will make up their Reserve Fund deficiency by contributing \$9,746 annually (which includes \$1,120 in make-up funds and \$8,625 in capital maintenance funds that will increase annually with inflation). This translates to an average of \$4.02 per unit per month in the initial year.

If this plan is followed, the Association will be Fully Funded by the start of 2050.

For a detailed look at the annual funding contribution necessary per year, see Table 4.5 “Reserve Fund Balance Sheet” (Section 4.5).

-OR-

Option Five: Baseline Funding – Keeping Reserve Balance above Zero

The funding plan necessary to maintain the Reserve Fund above zero for the duration of this study will be an annual contribution of \$7,927 per year in the initial year, which translates to \$3.27 per unit per month. This annual contribution will need to be increased 3% each subsequent year to maintain the Reserve Fund above zero and to account for inflation.

For a detailed look at the annual funding contribution necessary per year, see Table 4.5 “Reserve Fund Balance Sheet” (Section 4.5).

Option Four	
Average Contributions Per Unit Per Month:	
2020	\$4.02
Increasing at 3% per year through:	
2049	\$8.85

Option Five	
Average Contributions Per Unit Per Month:	
\$3.27	
(with 3% annual increase thereafter)	

4.4 ASSUMPTIONS FOR FUTURE INTEREST RATE AND INFLATION

For the purposes of this report, we have assumed that the inflation rate over the next 30 years will average **3%**. This is based on historical averages over the last 25 years and our conservative best guess for the future. This percentage can vary greatly just as global economic conditions can vary, which is one reason why this Reserve Study should be updated annually per Washington State RCW 64.90.550, which we provide complimentary over the next two years with this Reserve Study (see Appendix).

For the purpose of this study, we will assume that the Association manages their money in the Reserve Fund so that the average interest rate return on its money will be equal to that of inflation. This is a conservative estimate given that since 1965, the average yield between short term treasuries and inflation has been 1.04%, which means that these relatively conservative investments have been able to outpace inflation over the long term (according to Crestmont Research, www.crestmontresearch.com). Since we have assumed that the inflation rate over the duration of this study will average **3%**, we have conservatively also assumed that the Reserve Fund average interest rate will equal **3%**. Again, this does not reflect current averages but rather a best guess of the future assuming you have invested effectively.

A common strategy is to invest in multiple accounts. Funds that will be necessary in the shorter term must be kept in a relatively liquid account. Funds that are not allotted for near future planned expenditures can be deposited into longer term investments which frequently earn higher interest rates. Consult with a qualified financial advisor for the best solution for your Association.

4.5 ANNUAL FUND BALANCES; ANNUAL FUNDING TABLE AND FIGURES

The table and figures shown in this section are intended to give the Association a clearer view of the likely future financial position that the Association will be in, provided that the reserve funding plan is followed.

- Table 4.5: “Reserve Fund Balance Sheet”. This table lists annual revenue, expenses, and year end reserve fund balances. All Section 4.5 Figures are based on this data.
- Figure 4.5A-1: “Comparison of Funding Plans -- Reserve Fund Balances Through 2049”. This line graph depicts the funding balances of the proposed funding options vs. the current. Note the current plan, in dotted red, falls below zero in several places. This represents insufficient funding for repairs needed in these years.
- Figure 4.5A-2: “Comparison of Funding Plans -- Reserve Fund Balances Through 2029”. This line graph focuses on the next ten years, comparing the proposed plans to get the Association to a Full Funding status.
- Figure 4.5B: “Comparison of Funding Plans -- Association Contributions to Reserve Fund by Year”
- Figure 4.5C: “Comparison of Funding Plans – Percentage of Full Funding by Year”

LEVEL 2 RESERVE STUDY FOR HERITAGE PARK

TABLE 4.5: RESERVE FUND BALANCE SHEET

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
FULL FUNDING WITHIN 10 YEARS												
Beginning Reserve Balance	23,229	29,093	41,333	48,281	57,194	65,731	56,753	71,218	86,421	96,608	106,997	110,602
Full Funding Annual Maintenance Funding	15,090	8,625	8,884	9,151	9,425	9,708	9,999	10,299	10,608	10,926	11,254	11,592
Planned Special Assessments / Make up Funds		2,574	2,574	2,574	2,574	2,574	2,574	2,574	2,574	2,574	2,574	
Annual Total Property Contribution to The Reserve Fund	15,090	11,200	11,458	11,725	11,999	12,282	12,573	12,873	13,182	13,501	13,828	11,592
Average Monthly Contribution to the Reserve Fund per Unit	7.43	4.62	4.73	4.84	4.95	5.07	5.19	5.31	5.44	5.57	5.70	4.78
Annual Capital Expenses	10,000	-	5,835	4,371	5,279	23,070	-	-	5,700	6,120	13,439	3,461
Interest Income	773	1,041	1,324	1,559	1,817	1,810	1,891	2,330	2,705	3,009	3,216	3,440
Ending Reserve Balance	29,093	41,333	48,281	57,194	65,731	56,753	71,218	86,421	96,608	106,997	110,602	122,173
Percentage of Full Funding	63.5%	67.0%	72.5%	77.8%	82.3%	82.6%	88.0%	92.1%	95.1%	97.7%	100.0%	100.0%
<i>Yellow Highlighted Cells Represent Make-Up Funds</i>												
FULL FUNDING WITHIN 30 YEARS												
Beginning Reserve Balance	23,229	29,093	39,858	45,285	52,632	59,557	48,918	61,672	75,113	83,485	92,005	93,684
Full Funding Annual Maintenance Funding	15,090	8,625	8,884	9,151	9,425	9,708	9,999	10,299	10,608	10,926	11,254	11,592
Planned Special Assessments / Make up Funds		1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120
Annual Total Property Contribution to The Reserve Fund	15,090	9,746	10,004	10,271	10,545	10,828	11,119	11,419	11,728	12,047	12,374	12,712
Average Monthly Contribution to the Reserve Fund per Unit	7.43	4.02	4.13	4.24	4.35	4.47	4.59	4.71	4.84	4.97	5.10	5.24
Annual Capital Expenses	10,000	-	5,835	4,371	5,279	23,070	-	-	5,700	6,120	13,439	3,461
Interest Income	773	1,019	1,258	1,447	1,658	1,603	1,634	2,021	2,344	2,593	2,744	2,949
Ending Reserve Balance	29,093	39,858	45,285	52,632	59,557	48,918	61,672	75,113	83,485	92,005	93,684	105,885
Percentage of Full Funding	63.5%	64.6%	68.0%	71.6%	74.6%	71.2%	76.2%	80.1%	82.2%	84.0%	84.7%	86.7%
<i>Yellow Highlighted Cells Represent Make-Up Funds</i>												
BASELINE FUNDING												
Beginning Reserve Balance	23,229	29,093	38,012	41,517	46,862	51,701	38,892	49,387	60,475	66,399	72,372	71,400
Full Funding Annual Maintenance Funding	15,090	7,927	8,165	8,410	8,662	8,922	9,190	9,465	9,749	10,042	10,343	10,653
Planned Special Assessments / Make up Funds												
Annual Total Property Contribution to The Reserve Fund	15,090	7,927	8,165	8,410	8,662	8,922	9,190	9,465	9,749	10,042	10,343	10,653
Average Monthly Contribution to the Reserve Fund per Unit	7.43	3.27	3.37	3.47	3.57	3.68	3.79	3.90	4.02	4.14	4.27	4.39
Annual Capital Expenses	10,000	-	5,835	4,371	5,279	23,070	-	-	5,700	6,120	13,439	3,461
Interest Income	773	992	1,175	1,306	1,457	1,339	1,305	1,624	1,875	2,051	2,125	2,250
Ending Reserve Balance	29,093	38,012	41,517	46,862	51,701	38,892	49,387	60,475	66,399	72,372	71,400	80,843
Percentage of Full Funding	63.5%	61.6%	62.3%	63.8%	64.7%	56.6%	61.0%	64.5%	65.3%	66.1%	64.6%	66.2%

LEVEL 2 RESERVE STUDY FOR HERITAGE PARK

TABLE 4.5: RESERVE FUND BALANCE SHEET

	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
FULL FUNDING WITHIN 10 YEARS												
Beginning Reserve Balance	122,173	133,615	138,107	144,067	145,818	121,247	94,476	108,325	118,130	114,111	133,346	147,798
Full Funding Annual Maintenance Funding	11,939	12,298	12,667	13,047	13,438	13,841	14,256	14,684	15,124	15,578	16,046	16,527
Planned Special Assessments / Make up Funds												
Annual Total Property Contribution to The Reserve Fund	11,939	12,298	12,667	13,047	13,438	13,841	14,256	14,684	15,124	15,578	16,046	16,527
Average Monthly Contribution to the Reserve Fund per Unit	4.93	5.07	5.23	5.38	5.54	5.71	5.88	6.06	6.24	6.43	6.62	6.82
Annual Capital Expenses	4,277	11,822	10,876	15,580	41,955	43,800	3,405	8,225	22,576	-	5,748	12,828
Interest Income	3,780	4,016	4,170	4,284	3,947	3,188	2,997	3,347	3,432	3,657	4,155	4,489
Ending Reserve Balance	133,615	138,107	144,067	145,818	121,247	94,476	108,325	118,130	114,111	133,346	147,798	155,986
Percentage of Full Funding	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Yellow Highlighted Cells Represent Make-Up Funds</i>												
FULL FUNDING WITHIN 30 YEARS												
Beginning Reserve Balance	105,885	117,975	123,135	129,783	132,243	108,402	82,383	97,005	107,609	104,410	124,492	139,815
Full Funding Annual Maintenance Funding	11,939	12,298	12,667	13,047	13,438	13,841	14,256	14,684	15,124	15,578	16,046	16,527
Planned Special Assessments / Make up Funds	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120
Annual Total Property Contribution to The Reserve Fund	13,060	13,418	13,787	14,167	14,558	14,961	15,377	15,804	16,245	16,699	17,166	17,647
Average Monthly Contribution to the Reserve Fund per Unit	5.39	5.54	5.69	5.84	6.01	6.17	6.34	6.52	6.70	6.89	7.08	7.28
Annual Capital Expenses	4,277	11,822	10,876	15,580	41,955	43,800	3,405	8,225	22,576	-	5,748	12,828
Interest Income	3,308	3,563	3,738	3,872	3,556	2,819	2,651	3,024	3,133	3,383	3,906	4,267
Ending Reserve Balance	117,975	123,135	129,783	132,243	108,402	82,383	97,005	107,609	104,410	124,492	139,815	148,901
Percentage of Full Funding	88.3%	89.2%	90.1%	90.7%	89.4%	87.2%	89.6%	91.1%	91.5%	93.4%	94.6%	95.5%
<i>Yellow Highlighted Cells Represent Make-Up Funds</i>												
BASELINE FUNDING												
Beginning Reserve Balance	80,843	90,064	92,238	95,782	95,012	67,813	38,301	49,293	56,121	48,999	65,000	76,084
Full Funding Annual Maintenance Funding	10,973	11,302	11,641	11,990	12,350	12,721	13,102	13,495	13,900	14,317	14,747	15,189
Planned Special Assessments / Make up Funds												
Annual Total Property Contribution to The Reserve Fund	10,973	11,302	11,641	11,990	12,350	12,721	13,102	13,495	13,900	14,317	14,747	15,189
Average Monthly Contribution to the Reserve Fund per Unit	4.53	4.66	4.80	4.95	5.09	5.25	5.41	5.57	5.73	5.91	6.08	6.27
Annual Capital Expenses	4,277	11,822	10,876	15,580	41,955	43,800	3,405	8,225	22,576	-	5,748	12,828
Interest Income	2,526	2,694	2,779	2,820	2,406	1,568	1,295	1,558	1,553	1,685	2,085	2,318
Ending Reserve Balance	90,064	92,238	95,782	95,012	67,813	38,301	49,293	56,121	48,999	65,000	76,084	80,762
Percentage of Full Funding	67.4%	66.8%	66.5%	65.2%	55.9%	40.5%	45.5%	47.5%	42.9%	48.7%	51.5%	51.8%

LEVEL 2 RESERVE STUDY FOR HERITAGE PARK

TABLE 4.5: RESERVE FUND BALANCE SHEET

	2043	2044	2045	2046	2047	2048	2049
FULL FUNDING WITHIN 10 YEARS							
Beginning Reserve Balance	155,986	98,939	82,726	98,065	119,888	138,286	145,266
Full Funding Annual Maintenance Funding	17,023	17,533	18,059	18,601	19,159	19,734	20,326
Planned Special Assessments / Make up Funds							
Annual Total Property Contribution to The Reserve Fund	17,023	17,533	18,059	18,601	19,159	19,734	20,326
Average Monthly Contribution to the Reserve Fund per Unit	7.02	7.23	7.45	7.67	7.90	8.14	8.39
Annual Capital Expenses	77,837	36,432	5,391	-	4,576	16,945	24,273
Interest Income	3,767	2,685	2,672	3,221	3,815	4,190	4,299
Ending Reserve Balance	98,939	82,726	98,065	119,888	138,286	145,266	145,618
Percentage of Full Funding	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Yellow Highlighted Cells Represent Make-Up Funds</i>							
FULL FUNDING WITHIN 30 YEARS							
Beginning Reserve Balance	148,901	92,779	77,518	93,838	116,671	136,110	144,162
Full Funding Annual Maintenance Funding	17,023	17,533	18,059	18,601	19,159	19,734	20,326
Planned Special Assessments / Make up Funds	1,120	1,120	1,120	1,120	1,120	1,120	1,120
Annual Total Property Contribution to The Reserve Fund	18,143	18,654	19,180	19,722	20,280	20,854	21,446
Average Monthly Contribution to the Reserve Fund per Unit	7.48	7.70	7.91	8.14	8.37	8.60	8.85
Annual Capital Expenses	77,837	36,432	5,391	-	4,576	16,945	24,273
Interest Income	3,572	2,517	2,532	3,111	3,736	4,142	4,282
Ending Reserve Balance	92,779	77,518	93,838	116,671	136,110	144,162	145,618
Percentage of Full Funding	93.8%	93.7%	95.7%	97.3%	98.4%	99.2%	100.0%
<i>Yellow Highlighted Cells Represent Make-Up Funds</i>							
BASELINE FUNDING							
Beginning Reserve Balance	80,762	20,060	39	11,414	29,109	43,210	45,715
Full Funding Annual Maintenance Funding	15,645	16,114	16,597	17,095	17,608	18,136	18,680
Planned Special Assessments / Make up Funds							
Annual Total Property Contribution to The Reserve Fund	15,645	16,114	16,597	17,095	17,608	18,136	18,680
Average Monthly Contribution to the Reserve Fund per Unit	6.45	6.65	6.85	7.05	7.26	7.48	7.71
Annual Capital Expenses	77,837	36,432	5,391	-	4,576	16,945	24,273
Interest Income	1,490	297	169	599	1,069	1,314	1,288
Ending Reserve Balance	20,060	39	11,414	29,109	43,210	45,715	41,411
Percentage of Full Funding	20.3%	0.0%	11.6%	24.3%	31.2%	31.5%	28.4%

Figure 4.5A-1 Comparison of Funding Plans – Reserve Fund Balances Through 2049

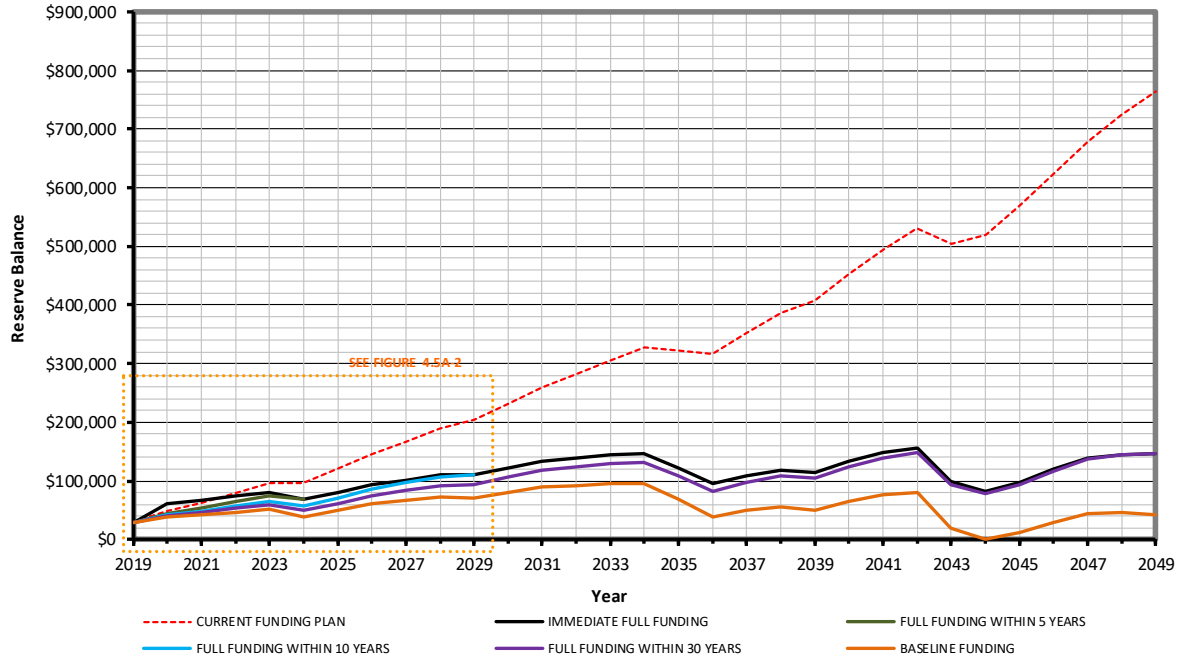


Figure 4.5A-2 Comparison of Funding Plans – Reserve Fund Balances Through 2029

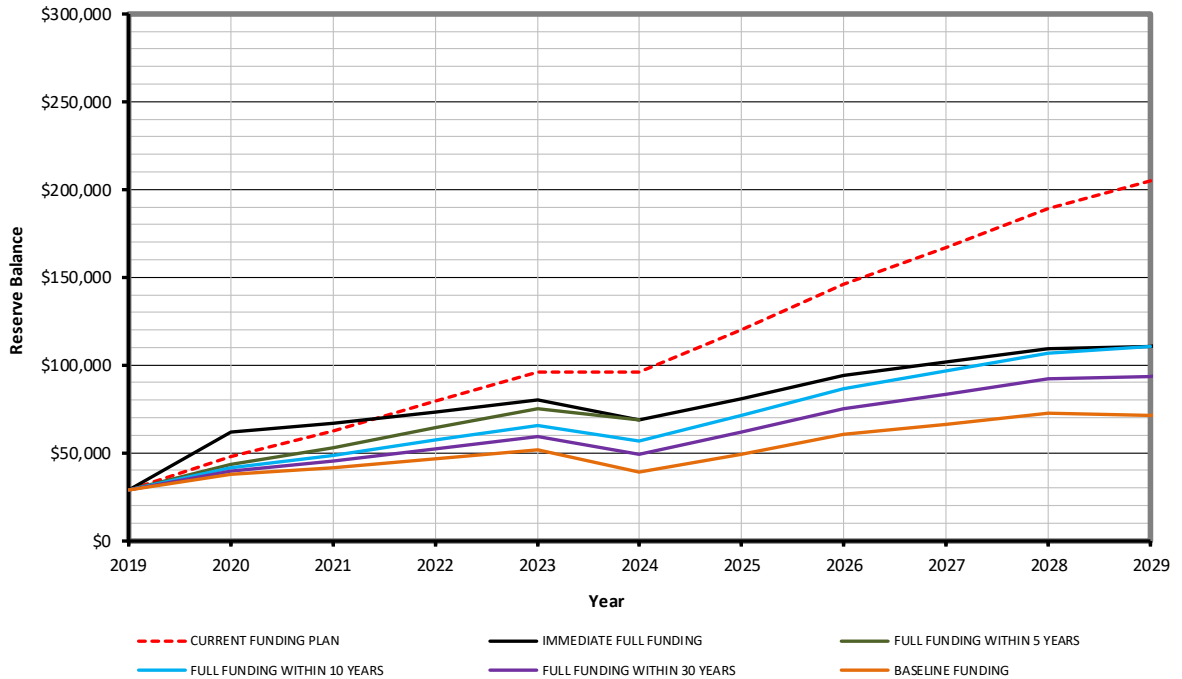


Figure 4.5B Comparison of Funding Plans -- Association Contributions to Reserve Fund by Year

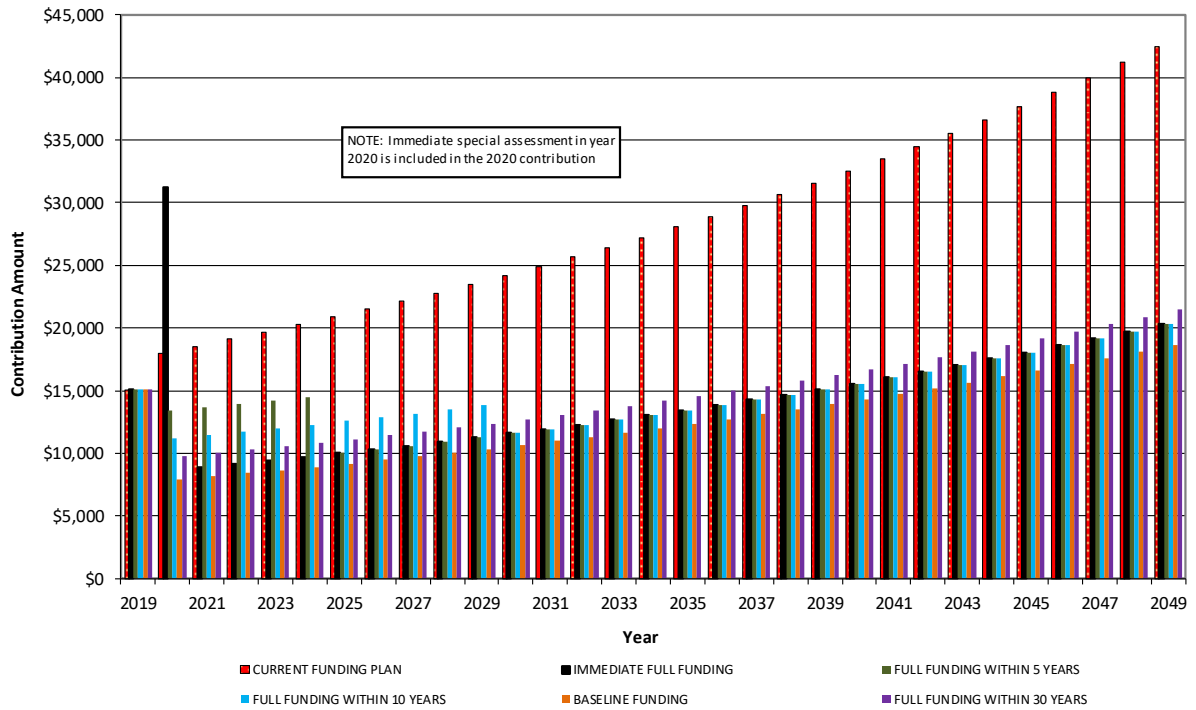
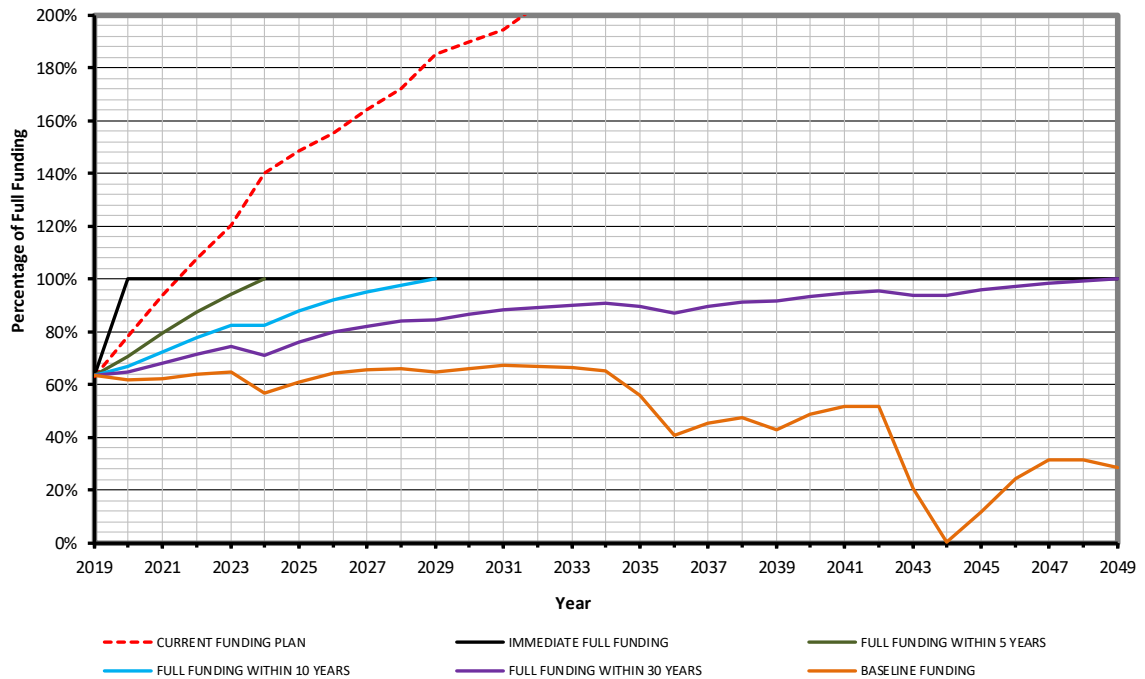


Figure 4.5C Comparison of Funding Plans – Percentage of Full Funding by Year



4.6 OTHER COMMON FUNDING METHODS

The following methods are methods that are sometimes implemented. We believe that many of these funding methods that keep the reserve fund at less than “Fully Funded” represent a weaker position for the Association. As the Fully Funded percentage decreases, the likelihood of unplanned special assessments increases.

Cash Flow Method

A method of calculating Reserve contributions 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 Method

A method of calculating Reserve contributions where the total reserve contribution is based on the sum of contributions for individual components.

Baseline Funding

Establishing a Reserve funding goal of keeping the Reserve cash balance above zero.

Full Funding

Setting a Reserve funding goal of attaining and maintaining the Reserve Fund at or near 100% funded. *Recommended by Jeff Samdal & Associates*

Statutory Funding

Establishing a Reserve funding goal of setting aside the specific minimum amount of Reserves required by local statutes.

Threshold Funding

Establishing a Reserve funding goal of keeping the Reserve Balance above a specified dollar or Percent Funded amount. Depending on the threshold this may be more or less conservative than “Fully Funded.”

5.0 LIMITATIONS

This report has been prepared for the exclusive use of Heritage Park Homeowners Association and their property management company. We do not intend for any other party to rely on this report for any reason without our expressed written consent. If another individual or party relies on this study, they shall indemnify and hold Jeff Samdal & Associates harmless for any damages, losses, or expenses they may incur as a result of its use.

The Level 1 Reserve Study is a reflection of the information provided to us. This report has been prepared for Heritage Park Homeowners Association's use, not for the purpose of performing an audit, quality/forensic analyses, or background checks of historical records. Our inspection report is not an exhaustive technical inspection of the property; we merely comment on the items that we believe that our clients would benefit from knowing. During a typical inspection, no invasive inspection is performed, no furnishings are moved, and no finishes are removed.

This report is a snap shot in time of the condition of the property at the time of inspection. The remaining life values that we list are based on our opinion of the remaining useful life and are by no means a guarantee. Our opinions are based on what we believe one could reasonably expect and are not based on worst case scenarios. These opinions are based upon our experience with other buildings of similar age and construction type. Opinions will vary and you may encounter contractors and/or consultants with differing opinions from ours. Ratings of various building components are most often determined by comparison to other buildings of similar age and construction type. The quality of materials originally impacts our judgment of their current state.

The life expectancy estimates that we prepare are based on National Association of Home Builders (NAHB) averages, Building Owners and Managers (BOMA) averages, product defined expected life averages, and our own assessment of typical life expectancy based on our experience with similar components in our area.

This report will tell you a great deal about the overall condition of this property. However, this report does not constitute a warranty, an insurance policy, or a guarantee of any kind. Owning any property involves some risk and while we can give an excellent overview of the property, we cannot inspect what we cannot see.

Our inspection and report do not include building code compliance or municipal regulatory compliance. Nor do they include mold investigations, hazardous materials investigations, or indoor air quality analysis.

The purpose of this report is not intended to be a statement of insurability of this property as insurance companies have particular standards for insurability of certain building types and certain building materials.

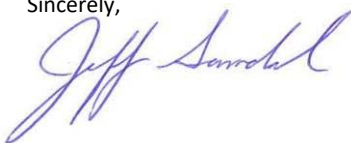
While we may comment that certain components have been recalled that we are aware of, we are not aware of all recalls. It is beyond the scope of this inspection to determine all systems or components that are currently or will be part of any recall in the future. You may wish to subscribe or contact the CPSC (Consumer Product Safety Commission) web site for recall information regarding any system or component. If a problem is encountered on your property, we cannot be responsible for any corrective action that you take, unless we have the opportunity to review the conditions, before repairs are made.

Please ensure that you have read and understand the entire proposal to perform this Level 1 Reserve Study that was signed prior to our inspection. If you have any questions regarding this document, please contact us.

We appreciate the opportunity to be of assistance and we hope that we have provided you a clear understanding of your financial situation and given you a better overall understanding of the your property. This report supersedes any opinion or discussion that occurred during the inspection and should be considered our complete opinion of the condition of this property.

Please contact us if you have any questions regarding this report. We will be happy to be of assistance.

Sincerely,



Jeff Samdal, PE, RS, PRA

APPENDIX

Resume of Engineer Performing Study

Jeff Samdal, P.E., Principal

Professional Qualifications and Experience

Areas of Expertise

Mr. Samdal is the owner of Jeff Samdal & Associates, Inc. (formerly Samdal Engineering), a corporation that specializes in building inspections, engineering, project management, and related services. He is a double-licensed Professional Engineer (Mechanical and Civil) in Washington State. He is also an accredited Building Inspection Engineer (BIE) and Reserve Specialist (RS). He has performed thousands of building inspections as well as numerous additional services such as building envelope investigations, construction management, and general consulting for property owners pertaining to building maintenance and long term budgeting. Mr. Samdal consistently earns repeat and referral business because of his attention to detail, practical approach, knowledge of the industry, and genuine appreciation for clients' concerns for their real estate investments.

Capabilities

Mr. Samdal is experienced at performing residential (single- and multi-family), commercial, and industrial inspections in Washington State and beyond. Mr. Samdal's experience includes the following:

- Property Condition Assessments (PCAs)
- Capital Needs Assessments (CNAs)
- Reserve Studies for Condominiums and Homeowner's Association
- Building Envelope Studies

Relevant Work History

Mr. Samdal has been owner and operator of Jeff Samdal & Associates / Samdal Engineering since 2005. Before concentrating on building inspections, Mr. Samdal worked for Washington Group International's (WGI) Hydropower and Water Resources Group. While working for WGI, Mr. Samdal was involved in rebuilding and rehabilitating hydro facilities. He served as the on-site powerhouse and switchyard inspector during construction. His duties included design, drawing and specification preparation, cost estimating, scheduling, and construction management. Prior to working for WGI, Mr. Samdal worked for Duke Energy in a similar role.

Education

BS in Mechanical Engineering, University of Washington

Licenses and Certifications

- *Licensed Professional Engineer (PE)*, Mechanical Engineering, State of Washington, #40985
- *Licensed Professional Engineer (PE)*, Civil Engineering, State of Washington, #40985
- *Reserve Specialist (RS)*, Community Associations Institute (CAI), #173
- *Professional Reserve Analyst (PRA)*, Association of Professional Reserve Analysts
- *Building Inspection Engineer (BIE)*, National Association of Building Inspection Engineers
- *Structural Pest Inspector*, State of Washington, #70763

Professional Affiliation

American Society of Mechanical Engineers, 2002 – present

Community Involvement

Mr. Samdal is married with two kids and lives in Woodinville. He has volunteered as a Little League coach since 2009 starting with tee-ball and volunteers as a scout leader.