

Level 3 Reserve Study

East Village Homeowners Association

Ashland, OR

Budget Year: 1/1/2021 – 12/31/2021

Reserve Specialist®: Carson M. Horton, RS®

Report Date: 2/9/2021



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PREFACE

East Village Homeowners Association Disclosures

This reserve study should be reviewed carefully. It may not include all common and limited common element components which 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.

Period of Inquiry: This reserve study encompasses a period of thirty (30) years beginning on 1/1/2021 and ending on 12/31/2050.

Restrictions on Use: This reserve study document has been provided pursuant to an agreement containing restrictions on its use. No part of the document may be copied or distributed in any form, or disclosed to third parties, without the written permission of Capital Reserve Consultants, LLC (CRC) or the Association. The Association shall have the right to reproduce and distribute copies of this report, in whole or in part, as may be necessary in the conduct of the Association's business.

Current & Final Version: If the reader has obtained this document from anyone other than CRC or the owner of the subject property they should verify that the reserve study represents the current, final version of the report. Alterations made to this reserve study by any individual other than a representative of CRC are not authorized and do not represent the opinion of the Reserve Specialist® who prepared this reserve study.

Statement of Qualifications: Carson M. Horton, RS®, the person supervising the preparation of this reserve study, is a Community Associations Institute Certified Reserve Specialist® (RS®); recognized for expertise in the preparation and analysis of reserve funding plans. Mr. Horton has supervised the preparation more than one-thousand reserve studies for homeowner's associations; investment property owners and institutional Associations in fourteen states.

Objective Analysis: CRC and Carson M. Horton, RS®, are independent, third party consultants with no actual or apparent conflict of interest which would prevent them from rendering an objective and impartial opinion regarding the appropriate level of reserve funding for the property which is the subject of this reserve study. The authors of this reserve study have no other involvement with the Association other than to prepare or update the reserve study.

Statement of Purpose: The purpose of this reserve study is to provide a planning and budgeting tool to assist in the development of a long-range financial plan to pay for the maintenance and renewal of the property which is the subject of the funding analysis. Because this reserve study relies on assumptions regarding future events over which CRC has no control, the accuracy of replacement costs and scheduling cannot be guaranteed.

Assumptions: This analysis assumes that all components and equipment will be installed correctly, in a workmanlike manner, using generally accepted construction practices. It is expected routine preventive maintenance will be performed throughout the entire lifecycle of all components whether or not such maintenance expenses are provided for in this reserve funding plan. The component replacement schedules and corresponding funding projections presented in the reserve study assume all components will achieve their normal life expectancy before requiring replacement, unless otherwise noted.

Limitations of the Analysis: Information regarding the reserve fund balance was provided by the Association and has not been confirmed by an independent audit of the Association's financial records. The authors of this reserve study have no control over whether the funds allocated for maintenance and renewal of the subject property will be consistent with the recommendations made by this reserve study.

Legacy Systems: Unless otherwise noted, this reserve study does not include funding for replacement, renewal or modernization of legacy systems. The authors of this study recognize the need for funding legacy systems in certain circumstances but due to the uncertainty over the life expectancy and/or the degree of replacement that

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may be required, funding for legacy system, when they exist, is not included in the reserve spending analysis. (See Glossary for an explanation of the term "legacy systems.")

Reliance on Third-Party Information: The reserve study is a reflection of information provided to CRC by third parties and cannot be used for the purpose of performing an audit, forensic analysis or verification of historical records. The information is deemed reliable, but is not based on an audit of the Association's financial records, and should not be used for purposes other than those intended in this study. An on-site inspection conducted in conjunction with a reserve study should not be deemed to be a project audit or quality inspection. CRC takes no responsibility for the accuracy of any such information or the impact inaccurate information may have on the findings and conclusions presented in the reserve study.

Standards of Analysis: This reserve study was prepared in accordance with the National Reserve Study Standards established by the Community Associations Institute for the preparation of reserve studies for common interest developments; the laws of various states and the rules set forth in the Audit & Accounting Guide Common Interest Realty Associations (American Institute of Certified Public Accountants-May 1, 2008).

Board Acknowledgement: The Board of Directors (BOARD) of the East Village Homeowners Association (ASSOCIATION) hereby acknowledges the limitations regarding this reserve study and the reserve planning efforts of the Capital Reserve Consultants, LLC (CRC), the managing agent and any vendors that may have been engaged to assist in the development of this reserve study, either in the past, at the current time or that may be enlisted at any point in the future.

The BOARD acknowledges that this reserve study may have been revised at the request of the BOARD or the ASSOCIATION'S managing agent and as such CRC cannot and does not guarantee the adequacy of the reserve funding strategy set forth in this reserve study.

No invasive or destructive testing has been employed in the investigative phase of this study and no environmental assessment of any kind was performed. This reserve study is not intended to address or discover construction defects and no representation is made herein that is meant to imply any such warranty.



Carson M. Horton, RS®



East Village Homeowners Association Introduction

1. Level of Inquiry: This reserve study is a Level 3 reserve study update of a previous reserve study that was prepared by Capital Reserve Consultants, LLC. A Level 3 reserve study update is an update of a previous study that does not include a site visit by the reserve study provider.

The reserve study is an analysis of the General and Limited Common Elements which are the responsibility of the Association to maintain and replace, according to the governing documents or as may be required by state law. Information regarding the quantity, current condition and remaining useful life of the assets and improvements which are the subject of this reserve study was obtained during a visit to the property by representatives of CRC in 2020.

Opinions regarding the current condition and remaining life expectancy of the common area components are based on visual observations made during the inspection process. Component quantities may be based on field measurements, a physical inventory and/or Association records. This information is intended to be used for developing long term reserve funding projections, but should not be considered adequate for the purpose of ordering materials or formulating repair and replacement project costs.

2. Limitations of the Analysis: The physical condition assessment performed in conjunction with this reserve study is not intended to identify construction defects or other sub-standard conditions which may require immediate corrective action. The reserve study utilizes information obtained from the following sources to arrive at component replacement costs and useful life estimates for the common area components identified in the component inventory:

- National Construction Estimator (2020)
- Life Cycle Costing for Facilities – (Reed Construction Publishers)
- Preventive Maintenance and Building Operations Efficiency – (BOMA)
- Facility Manager's Maintenance Handbook – (McGraw-Hill)
- RS Means Facilities Maintenance & Repair Cost Data - 16th Edition
- Condition assessment conducted by CRC

3. Statutory Requirements: The funding time frame covered in this reserve study is thirty (30) years. The study must be updated annually to be in compliance with state law. To be considered a current reserve study that complies with state law the study must contain the following information:

- The reserve fund balance as of the first day of the current budget year.
- An estimate of the remaining useful life of the common elements for which the reserves have been established from the point at which the reserve study is updated.
- An estimate of the future cost of repairing, replacing or maintaining the components for which the reserves have been established, based on the inflation rate at the time the reserve study is updated.
- An estimate of the future cost of exterior painting if the common elements include exterior surfaces that are painted.

East Village Homeowners Association Reserve Planning

Introduction: The following summary of the basic principles of reserve planning for common interest developments.

1. Replacement Reserve Fund: The purpose of this reserve study is to identify predictable and determinant expenditures that will be required to modernize, renew or replace common area improvements within the community. Certain maintenance expenditures may also be included in the reserve spending analysis if the maintenance activity is generally acknowledged to extend the useful life of an asset; if the maintenance is required to prevent premature deterioration of the asset; or if state law requires that the expenditure be included in the replacement reserve budget.

2. Predictable & Determinant Expenses: The terms predictable and determinant are qualifiers that are used to establish whether an expense will be included in the replacement reserve budget. Expenses that cannot be reasonably and reliably predicted in advance are not appropriate for inclusion in the replacement reserve budget. This includes expenditures that may or may not ever occur, such as insurance deductibles. To qualify as a determinant expenditure the current cost must be able to be determined with a reasonable degree of certainty by a qualified expert or by mutual agreement of the parties who have a vested interest in funding of the reserves.

The term replacement reserves refer to funds that are being accumulated for the purpose of renewing or replacing commonly owned assets within the community. It is a common practice throughout the industry to use the generic term “reserves” when referring to the replacement reserve funds. It is recommended that Boards and managers make a point of using the term replacement reserves to avoid confusion since the term reserves can have more than one meaning in the context of accounting and financial planning.

State laws in Oregon and some other states require that the replacement reserves be sequestered in one or more bank accounts that are clearly identified as the replacement reserve fund. All Association funds, including the replacement reserves, should be warehoused in bank accounts that are FDIC-insured or in investments that are backed by the full faith and credit of the U.S. Government.

Many communities that were developed prior to 1990 are only now being confronted with the impact of underfunded reserves as they reach the 30-year tipping point in the lifecycle of the community. It is not uncommon for older communities to levy special assessments to pay for renewal or replacement of long-lived common-area improvements. These special assessments may be used to secure financing from a bank, with the proceeds from the bank loan being used to pay for renewal and replacement expenses while the revenue generated by the special assessment is used to service the loan.

3. Legacy Systems: Legacy systems or legacy components refers to common area improvements and building systems placed in service at the time of the initial construction of the property with an expected useful life in excess of 30 years. Due to the long-lived nature of many legacy systems, it is not uncommon to find that the reserve study may not include funding for replacement of these systems, either because the life expectancy is not predictable or because the remaining useful life of the component is greater than the 30-year projected that is captured in the typical reserve study.

Legacy systems that are typical of many homeowner associations include building components such as siding, windows and doors or mechanical, plumbing, electrical systems. Legacy systems may also include water mains, irrigation supply pipes, pavement, roads, utility metering equipment and other infrastructure-related components.

When the subject property is more than 20 years old the issue of legacy systems and the Association's reserve

East Village Homeowners Association Reserve Planning

funding responsibilities with respect to renewal and replacement of the legacy systems should be addressed at least to the extent that the reserve study recognizes the need to either fund the reserves that will provide sufficient money to pay for replacement and renewal. In the alternative, the study may include a disclosure that acknowledges the Association's plans with respect to replacement of legacy systems.

4. Baseline Property Condition Assessment: CRC recommends all communities that are more than 20 years of age engage an independent technical consultant to conduct a Baseline Property Condition Assessment, the subject of which should be the common area improvements that are at least 20 years old as of the date of the assessment.

To learn more about the ASTM E2018-01 Standard Guide for Property Condition Assessments and the condition assessment process, or to purchase a copy of the standard, please visit the ASTM International website at: <https://www.astm.org/Standards/E2018.htm>

The site visit/physical assessment performed by CRC in conjunction with this reserve study is not intended to be a substitute for a property condition assessment.

5. Reserve Funding & Legacy Systems: Many reserve studies will address the need for funding to pay for renewal and replacement of legacy systems and long-lived components in a superficial manner that is often inadequate. To determine whether an expenditure is included in the replacement reserve budget it must first pass the predictable and determinant test. If the need for funding cannot be reasonably predictable, or if the amount of the expenditure cannot be reasonably determined, then it is not appropriate for inclusion in the reserve study.

In those instances where the need for funding is clearly established the Board of Directors or the Reserve Specialist® must develop an estimate of the future cost of renewal or replacement of the component/s in question. When the Board of Directors chooses to override the recommendations of experts by including funding in the reserve budget that is not supported by solid analysis; the Board must be prepared to take responsibility for its decision and continue to monitor the situation in the interest of the integrity of the reserve funding analysis. Once a clear and convincing need for reserves has been established by a comprehensive condition assessment the reserve study may be revised to reflect the need for funding.

6. Reserve Funding for Assessment Expenses: The cost of a comprehensive property condition assessment can be significant. In particular when the subject of the analysis are long-lived systems or components that are hidden from view such as plumbing and electrical installations. If the common elements of the Association include legacy systems or major improvements that are 20 years of age or older the reserve study may include funding for a condition assessment. The cost of a condition assessment may be included in the reserve fund budget or at the discretion the Board of Discretion.

7. Distribution of Accumulated Reserves: The Distribution of Accumulated Reserves is a report which illustrates how much of the accumulated reserves, or beginning reserve fund balance, are distributed to each of the reserve fund expenditures itemized in the reserve study. The allocation of the reserves is based on chronological need; i.e. those expenditures which are scheduled to occur the soonest will be allocated a portion of the reserves before those expenses which are not scheduled to occur until well into the future.

When the percent funded level is equal to or greater than 100%, all of the expenditures identified in the reserve study will be allocated 100% of the money needed to offset the value of the assets that has been lost to depreciation. As an example, we will use a single component as an example of how the allocation of accumulated reserves works.

East Village Homeowners Association Reserve Planning

If we assume that a roof replacement expense is going to cost \$20,000 and that the roof in question will last 20 years, we calculate the allocation of reserves that is required each year to generate \$20,000 by the time the roof reaches the end of its useful life. In this example if we divide the \$20,000 roof replacement cost by 20 we can see that annual allocation would be \$1,000 to the reserve fund each year for 20 years.

As the roof ages, the amount of money that would need to be allocated to the roof replacement will increase \$1,000 each year. Hence, after 5 years the reserves allocated to the roof replacement would need to total \$5,000 in order for the roof replacement reserves to be 100%, or fully funded.

It is important to note that in this context a “fully funded” reserve account does not mean that the reserves which have been allocated to one or all of the reserve expenditures will necessarily represent 100% of the cost of replacing the item. Rather a fully funded reserve account means that the current accumulated reserves are equal to or greater than the amount that is required to offset the combined value of all components that has been lost through depreciation as of the beginning date of the reserve study.

When the reserves are less than 100% funded there will always be one or more reserve expenditures which are not allocated any of the available reserves. These components will in turn always be those expenses which are scheduled to occur at the furthest date from the beginning date of the reserve study due to the chronological nature of the way the accumulated reserves are allocated.

The algorithm that generates the Distribution of Accumulated Reserves report is a default function of all commercially distributed reserve study software and cannot be edited or modified by the software user. The only means of controlling the allocation of reserves that is available to the analyst is to alter the replacement date of a component if for some reason it is necessary for a particular expenditure to be allocated a portion of the currently available reserves.

8. Annual Reserve Study Updates: Oregon and Washington statutes require that the reserve study include a schedule of reserve fund contributions and expenditures that covers a period of thirty (30) years beginning with the first day of the current budget year. In order for a reserve study to be considered current, and in compliance with state law, the thirty (30) year projection must begin on the first day of the current budget year.

In order to meet the statutory of state law in Oregon the reserve study must be reviewed and updated annually, using the following information:

- The starting balance of the reserve account for the current fiscal year;
- The estimated remaining useful life of each item for which reserves are or will be established, as of the date of the study or review;
- The estimated cost of maintenance and repair and replacement at the end of the useful life of each item for which reserves are or will be established;
- The rate of inflation during the current fiscal year; and
- Returns on any invested reserves or investments.

Opinions differ on the correct interpretation of the statute with regard to whether the law requires that the inflation rate used to project future replacement costs is supposed to be the inflation rate at the time, or during, the fiscal year when the update is performed, or whether the Board of Directors has the discretion to determine what inflation rate will be used.

The use of the *current* inflation rate vs. a *long-term average* is not consistent with a prudent reserve planning

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Reserve Planning**

strategy and is likely to result in underfunding of the reserves. CRC recommends that all homeowner associations use an inflation factor that takes into consideration long-term inflation trends by averaging the annual inflation rate for a minimum period of 30 to 40 years ending with the most recently ended calendar year.

If the Board of Directors is uncertain about how to interpret the statute with respects to determining the inflation rate used in the reserve study CRC advises that they consult with an attorney.

SECTION I

PHYSICAL ANALYSIS

East Village Homeowners Association Property Description

The following details pertain to the East Village Homeowners Association:

- 1. Legal Name of Association:** East Village Homeowners Association
- 2. Physical Address:** Abbott Avenue & Dollarhide Way, Ashland, OR
- 3. Mailing Address:** 258 A Street Suite 1, PMB 59, Ashland, OR 97520
- 4. Property Type:** Planned Development
- 5. Total Number of Residential Lots:** 39
- 6. Year Constructed:** 2004-2006
- 7. Conversion Condominium:** No
- 8. Incorporation Date:** 9/1/2004

9. Association Responsibilities: The Association is responsible for repair and replacement of General and Limited Common Elements as described in the Declaration for the Association.

10. Owner Responsibilities: Owners are responsible for the maintenance, repair and replacement costs relating to the interiors of their respective condominium units up to the boundaries of the unit in the case of a condominium development or up to the boundaries of their respective lots in the case of a planned development; the boundary of each unit or lot being that which is described in the Declaration for the Association.

11. General Description: The subject property is a residential planned development consisting of thirty-nine attached homes in seven buildings. The Association is responsible for maintaining the various site improvements including front yard landscaping; landscape irrigation equipment; sidewalks and driveway approaches. This Reserve Study includes expenditures pertaining to the following improvements:

- Concrete curbing & sidewalks
- Landscaping & irrigation

Common area improvements that are not included in this reserve funding analysis are paid for with funds from the operating account according to the Board of Directors.

SECTION II

FINANCIAL ANALYSIS

East Village Homeowners Association Economic Parameters

1. Parameters: This reserve study may include information that was provided by the Association and its representatives. Any such information is assumed to be true for the purposes of this reserve study. Representations are assumed to be true and made in good faith by all parties associated with the development of this study. The financial parameters used in this reserve funding analysis are at the discretion of the Board of Directors. In the absence of input from the Board CRC will use its discretion determine the financial parameters used in the analysis.

2. Inflation: The inflation rate in the United States changes every month when the inflation rate for the previous 12-month period is published by the Bureau of Labor Statistics.

- The average annual inflation rate for the 30-year period ending on 12/31/2019 was 2.45%.
- The average annual inflation rate for the 40-year period ending on 12/31/2019 was 3.23%.
- The average annual inflation rate for the 50-year period ending on 12/31/2019 was 4.00%.
- The inflation rate as of the Report Date of this reserve study was 1.36%.
- The inflation rate used in this reserve study is 3%.

The actual inflation rate may vary from the inflation rate used in this analysis. Particularly in urban areas where the demand for goods and services is higher than it may be for the country overall. Areas that are geographically isolated or where labor and materials may not be readily available may also experience above-average inflationary pressure, particularly during periods of high demand when the economy is expanding.

3. Hyperinflation: Many homeowner associations in Oregon and Washington are experiencing hyperinflation of repair and replacement costs associated with maintaining and replacing the common elements within the community. There are several reasons for the extreme inflationary pressure that these Associations have been faced with, not the least of which is the litigious atmosphere that surrounds homeowner associations in general and in particular, the high frequency of construction defect claims that are filed against contractors and suppliers that serve the homeowner association marketplace.

The added litigation risk associated with working on association-owned property, combined with the current shortage of manpower that the construction industry is experiencing throughout the nation and the high cost of living on the west coast, have led to price increases for many types of replacement and repair projects that are many multiples of the current inflation rate or the higher, long-term averages used in many reserve studies.

Another factor that serves to increase the cost of renewal and renovation projects for homeowner associations is the use of professional consultants for technical and project management support. In some circumstances the use of these consultants may be warranted but consulting fees can add a significant amount to the cost of a project. Associations should carefully consider the need for administrative and technical experts when planning a project as most reserve study replacement cost estimates do not include the cost of hiring project management or technical consultants.

4. Interest Earnings: Investment income and income tax levels may affect reserve funding levels. The funding parameters established for this reserve study assume all reserve funds will be held in FDIC insured interest-bearing accounts. Interest earnings of .50% are assumed in this reserve study.

5. Income Taxes: This funding analysis assumes the Association will pay an effective income tax rate on interest earnings of 15%.

6. Reserve Fund Contingency: A reserve fund contingency of 5% has been established for this reserve study.

East Village Homeowners Association Current & Projected Reserve Funding Analysis

1. Current Financial Condition: The Association's fiscal year begins on January 1st of each year. The reserve study encompasses a 30-year period that begins on 1/1/2021.

- The 30-year period covered by the study begins on 1/1/2021 and ends on 12/31/2050.
- The reserve fund balance as of 1/1/2021 is **\$33,146.00**.
- Based on the funding schedule set forth in this reserve study and the beginning reserve fund balance indicated above, the percent funded level as of 1/1/2021 will be: 129%

2. Percent Funded Level: The percent funded level resulting from this reserve study analysis is calculated using the following formula, which is mandated by the Community Associations Institute's Reserve Study Guidelines:

- Fully Funded = PV x CA / EUL.
- Where PV = present value; CA = current age; and EUL = expected useful life.

Hence the Fully Funded calculation for a component with a current age of 3 years, a present value of \$10,000 and an expected useful life of 10 years would be:

- $\$10,000 \times 3 / 10 = \$3,000.00$.

Therefore, the total amount of money required to be Fully Funded as of the first day of the current funding cycle would be \$3,000.00.

3. Funding Parameters & Projections: Reserve funds will be accumulated in the replacement fund based on the estimated current replacement cost, adjusted for inflation, of the common area components listed in the Component Inventory. If additional funds are required at the time replacement occurs, the Association reserves the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay repair or replacement of components until funds are available.

Actual costs may vary from the amounts established in this reserve study. Investment income and income tax levels may affect reserve funding levels and the variances may be material. Amounts accumulated in the replacement reserve fund may not be adequate to meet future funding requirements; particularly if updates are not performed in a timely manner, or if reserve contributions are not consistent with the amounts set forth in this reserve study.

The reserve funding projections which result from this reserve study utilize the following financial parameters:

- Reserve fund balance as 1/1/2021: **\$33,146.00**
- 2021 reserve fund contribution: **\$2,196.00**.
- Maximum annual increase in the reserve contribution after 2021 of 6%.
- Earnings on reserve deposits: .50%
- Annual inflation rate: 3%
- Effective income tax rate: 15%
- Reserve fund contingency: 0%

The Annual Reserve Fund Expenditure Detail indicates the next reserve expenditures scheduled to occur will be in 2023. The total amount of these expenditures is estimated to be: **\$1,633.00**.

4. Current Assessment Funding: The funding projection contained in this reserve study utilizes a cash flow funding method known as Current Assessment Funding. Current Assessment Funding is a reserve funding model

East Village Homeowners Association Current & Projected Reserve Funding Analysis

in which the first year, or current, reserve fund contribution is established by the Board of Directors or the Reserve Specialist®. The Current Assessment Funding Projection begins with a 2021 reserve fund contribution of **\$2,196.00** which equals **\$56.31** per lot based on 39 lots.

5. Percent Funded Analysis: The percent funded level under the Current Assessment Funding Projection will be 140% at the end of 2021 assuming the reserve fund activity is consistent with the schedule set forth in the reserve study.

- The highest percent funded level after 2021 is 90% in 2024.
- The lowest percent funded level after 2021 is 17% in 2021.

The Current Assessment Funding Projection included in this reserve study represents the contribution schedule required to meet the reserve obligations set forth in this reserve study for the next thirty years, assuming a beginning reserve fund balance of **\$33,146.00**; a 2021 contribution of **\$2,196.00** and a maximum annual increase in the reserve contribution of 8% in 2032-2047.

6. Total Reserve Spending: Assuming the reserve fund expenditures and contributions do not deviate from the schedule set forth in this reserve study the reserve funding and spending obligations for the thirty-year period ending on 12/31/2050 are as follows:

- Total Reserve Spending **\$142,948.00**
- Average Annual Reserve Expenditures: **\$4,765.00**
- Total Reserve Fund Contributions: **\$139,984.00**
- Interest Earnings on Reserve Fund Deposits: **\$2,807.00**
- 12/31/2050 Reserve Fund Balance: **\$32,686.00**

7. Minimum Reserve Fund Balance: Assuming the reserve fund contributions and expenditures do not deviate from the schedule set forth in this reserve study, the minimum year-end reserve fund balance resulting from the Current Assessment Funding Projection will be **\$7,695.00** in 2046.

8. Funding Summary: If the reserve funding and spending activity does not deviate from the schedule set forth in this reserve study, the funding schedule established in this reserve study will meet the reserve spending obligations of the Association assuming the funding parameters outlined above do not change. Estimates of future reserve fund expenditures are an estimate of future costs that is derived by applying the stated assumed inflation rate to the current estimated replacement cost for the component or asset in question. Deviations in the inflation rate over the next 30 years or in the actual replacement cost cannot be predicted in advance and may have a material impact on the reserve funding requirements of the Association.

The analysis assumes that reserve funds will only be spent to pay for expenditures that are identified in the reserve study as reserve fund expenditures. If funds are borrowed from the reserve fund, they must be repaid with interest that is equal to or greater than the interest rate assumed in the reserve study. If funds are used to pay for expenditures that are not identified as reserve fund expenditures, the Association may not have sufficient reserves to pay for expenditures when they are scheduled to occur.

SECTION III

RESERVE FUNDING PROJECTIONS

East Village Homeowners Association

Current Reserve Funding Status

1. Reserve Funding Models: The 30-year reserve funding schedule presented in this reserve study utilizes a Cash Flow Funding Model known as Current Assessment Funding. The Current Assessment Funding projection begins with a 2021 reserve fund contribution of **\$2,196.00**.

2. Cash Flow Funding Method: Cash Flow Funding is a reserve funding approach which is designed to generate sufficient incoming cash flow into the Association's reserve account to meet the funding obligations established in the reserve study. Assuming the cost and frequency of reserve expenditures does not deviate from the schedule set forth in the reserve study; the Association's reserve fund will always contain enough money to meet its funding obligations, regardless of the percent funded level at any point in time.

All cash flow funding methods result in the pooling of reserves. Pooled reserves occur when all reserve funds are accumulated in one reserve account and the current reserves are allocated to pay for reserve expenditures based on chronological urgency or discretionary action taken by the Board of Directors. Reserves accumulated in a pooled reserve fund may only be used to pay for current or future reserve obligations and will automatically be reallocated to pay for other scheduled expenditures if 100% of the amount allocated to pay for a specific expenditure is not used to pay for the expense at the time it is scheduled to occur.

Funds collected for the purpose of providing replacement reserves to pay for repair and replacement of common elements may not be used to pay for operating expenses or any expenses which are not specifically identified as reserve expenditures in the current reserve study.

3. Current Reserve Funding Status: The Association's replacement reserve fund will be 129% funded as of 1/1/2021 assuming the reserve fund balance is **\$33,146.00**. The beginning reserve fund balance required to achieve a fully funded reserve account as of 1/1/2021 is **\$25,390.00**. The funding surplus as of 1/1/2021 was **\$7,756.00**.

**East Village Homeowners Association
Current Assessment Funding Summary**

Report Parameters

Report Date	February 9, 2021	Inflation	3.00%
Account Number	OR-1601-000		
Version	Level 3		
Budget Year Beginning	January 1, 2021	Interest Rate on Reserve Deposit	0.50%
Budget Year Ending	December 31, 2021	Tax Rate on Interest	15.00%
Total Units	39	2021 Beginning Balance	
Phase Development	1 of 1		\$33,146

This funding projection utilizes a cash flow funding method known as Current Assessment Funding to generate the funding schedule on the following page. Current Assessment Funding is a cash flow funding method which allows the Reserve Specialist® or the Board of Directors to specify the amount of the annual reserve fund contribution in one or more of the years covered by the reserve study.

Reserves accumulated under a cash flow funding strategy are pooled. Pooling of reserves refers to the fact that all funds are maintained in one fund and are allocated based on the annual cash flow required to meet the reserve funding obligations of the Association rather than being allocated according to the rate at which the assets for which the reserves have been established, are depreciating.

Cash flowing funding models may or may not result in the accumulation of reserves at a rate which is sufficient to offset the loss in value due to depreciation of the assets that will be replaced with the reserve funds. In order for the accumulated reserves to fully offset the loss in value that results from depreciation the percent funded level at the end of the fiscal year must be 100% or more.

Current Assessment Funding Model Summary of Calculations

Required Month Contribution	\$183.00
Average Net Month Interest Earned	\$12.18
Total Month Allocation to Reserves	\$195.18

East Village Homeowners Association
Current Assessment Funding Projection

Report Date	February 09, 2021
Beginning Fiscal Year	January 01, 2021
Account Number	OR-1601-000
	Version Number Level 3

Beginning Balance: \$33,146

Beginning Year	Current Cost	Annual Contribution	Annual Interest	Annual Expenditures	Projected Ending Reserves	Fully Funded Reserves	Fully Funded Percent
2021	29,568	2,196	146		35,488	25,390	140%
2022	30,455	2,000	156		37,644	28,011	134%
2023	31,369	2,060	158	1,633	38,229	29,084	131%
2024	32,310	2,122	117	11,829	28,640	20,307	141%
2025	33,279	2,185	90	8,759	22,155	14,730	150%
2026	34,277	2,251	53	10,922	13,538	7,192	188%
2027	35,306	2,319	63		15,919	10,776	148%
2028	36,365	2,388	70	663	17,715	13,886	128%
2029	37,456	2,460	63	4,212	16,026	13,537	118%
2030	38,579	2,534	67	1,673	16,953	15,900	107%
2031	39,737	2,686	62	3,926	15,774	16,124	98%
2032	40,929	2,874	74		18,721	20,513	91%
2033	42,157	3,103	78	2,194	19,708	22,889	86%
2034	43,421	3,352	71	4,883	18,248	22,689	80%
2035	44,724	3,620	78	1,940	20,005	25,638	78%
2036	46,066	3,909	75	4,551	19,438	26,114	74%
2037	47,448	4,222	93		23,753	31,424	76%
2038	48,871	4,560	108	891	27,530	36,111	76%
2039	50,337	4,925	104	5,661	26,898	36,166	74%
2040	51,847	5,319	117	2,249	30,085	39,881	75%
2041	53,403	5,744	119	5,276	30,672	40,738	75%
2042	55,005	6,204	145		37,021	47,207	78%
2043	56,655	6,700	161	2,949	40,933	50,991	80%
2044	58,355	7,236	100	21,364	26,905	36,082	75%
2045	60,105	7,815	65	15,820	18,965	26,604	71%
2046	61,909	8,440	16	19,726	7,695	12,990	59%
2047	63,766	9,115	54		16,864	19,463	87%
2048	65,679	9,115	88	1,198	24,870	25,079	99%
2049	67,649	9,115	95	7,607	26,472	24,450	108%
2050	69,679	9,115	121	3,022	32,686	28,717	114%

SECTION IV

COMPONENT INVENTORY REPORTS

East Village Homeowners Association Explanation of Component Inventory Reports

This section of the reserve study provides a narrative summary and tabular compilations of the common area components which are the subject of this reserve funding analysis. A brief explanation of each report contained in this section is included here for those readers who may be unfamiliar with the information provided in a reserve study.

- 1. Component Report by Remaining Life Expectancy:** This report displays the component inventory sorted by the remaining life expectancy of each component which is included in the reserve funding schedule. Expenditures which are scheduled to recur more than one time over the thirty-year period covered by the study will only appear one time in this list based on the next scheduled year of occurrence. Other information provided in this report includes the next scheduled year of replacement, useful life, current cost, assigned reserves and the amount required for each component to be fully funded as of the beginning date of the reserve study. If the assigned reserves are equal to the fully funded amount shown in the far right-hand column then the component in question is said to be fully funded.
- 2. Component Report with Current Costs:** This report again displays the component inventory by category and remaining life expectancy. It also includes the component quantity based on the unit of measure (SF, SY, LF, etc.,), the unit cost which has been used to arrive at the total replacement cost, and the current replacement cost as of the beginning date of the reserve study.
- 3. Component Report Details:** This report is found in the Appendix. It contains all of the component data which has been input into the modeling database to develop the reserve funding projections contained in the reserve study. Most of the information contained in this report is also displayed in one or more of the component reports found in Section II.

East Village Homeowners Association
Component Report by Remaining Life Expectancy

Report Date	February 09, 2021
Beginning Fiscal Year	January 01, 2021
Account Number	OR-1601-000
	Version Number Level 3

Description	Replacement Year	Useful Life	Adjustment	Remaining Life	Current Cost	Assigned Reserves	Fully Funded
Concrete Sidewalks-Repair (Clay St)	2023	5 0	2	539	539	323	
Landscape Irrigation-Timers	2023	10 0	2	1,000	1,000	800	
Concrete Sidewalks-Repair (Abbott Ave)	2024	5 15	3	3,325	3,325	2,826	
Front Yard Landscape Renovation (1)	2024	20 0	3	6,500	6,500	5,525	
Landscape Irrigation-Double-Check Valve (2")	2024	20 0	3	1,000	1,000	850	
Concrete Sidewalks-Repair (Engle St)	2025	5 16	4	1,282	1,282	1,038	
Front Yard Landscape Renovation (2)	2025	20 0	4	6,500	6,500	5,200	
Concrete Sidewalks-Repair (Dollarhide Way)	2026	5 5	5	2,921	2,921	1,461	
Front Yard Landscape Renovation (3)	2026	20 0	5	6,500	6,500	4,875	
Total Asset Summary				\$29,568	\$33,146	\$22,899	

Excess Funds:

**East Village Homeowners Association
Component Report with Current Costs**

Report Date	February 09, 2021
Beginning Fiscal Year	January 01, 2021
Account Number	OR-1601-000
	Version Number Level 3

Description	Date in Service	Replacement Year	Useful	Adjustment	Remaining	Units	Unit Cost	Current Cost
Fencing								
Front Yard Landscape Renovation (1)	2004	2024	20	0	3	13 Units	500.00	6,500
Front Yard Landscape Renovation (3)	2006	2026	20	0	5	13 Units	500.00	<u>6,500</u>
Fencing - Total								\$13,000
Landscaping & Irrigation								
Landscape Irrigation-Timers	2013	2023	10	0	2	2 Each	500.00	1,000
Landscape Irrigation-Double-Check Valve (2")	2004	2024	20	0	3	1 Total	1,000.00	1,000
Front Yard Landscape Renovation (2)	2005	2025	20	0	4	13 Units	500.00	<u>6,500</u>
Landscaping & Irrigation - Total								\$8,500
Pavement								
Concrete Sidewalks-Repair (Clay St)	2018	2023	5	0	2	1,135 SF	9.50@ 5%	539
Concrete Sidewalks-Repair (Abbott Ave)	2004	2024	5	15	3	7,000 SF	9.50@ 5%	3,325
Concrete Sidewalks-Repair (Engle St)	2004	2025	5	16	4	2,700 SF	9.50@ 5%	1,282
Concrete Sidewalks-Repair (Dollarhide Way)	2016	2026	5	5	5	6,150 SF	9.50@ 5%	<u>2,921</u>
Pavement - Total								\$8,068
Total Asset Summary								\$29,568

SECTION V

RESERVE EXPENDITURE REPORTS

East Village Homeowners Association Explanation of Reserve Expenditure Reports

This section of the reserve study includes a series of reports which detail how the Association's reserve funds will be spent over the next thirty years. A brief explanation of each report contained in this section is included here for those readers who may be unfamiliar with the information provided in a reserve study.

1. Annual Reserve Expenditure Detail: This report provides a year by year summary of the reserve fund expenditures scheduled for each year covered in the reserve study. Expenditures are listed alphabetically in each year when they are scheduled to occur. Hence, an expenditure which is scheduled to occur every 5 years beginning in 2017 will appear for the first time under the 2017 heading and again in years 2022, 2027, 2032 and so on. The projected costs listed for each year take into account the effect of inflation on future replacement costs. Therefore, the replacement cost for a recurring expenditure will be higher each time it appears in this schedule.

2. Capital & Non-Capital Expenditures: This report groups the scheduled reserve expenditures under one of two categories; Capital Expenditures or Non-Capital Expenditures. In the context of a reserve study capital expenditures are generally defined as expenditures which are for the purpose of replacing, improving or prolonging the life expectancy of a common area asset. Non-capital expenditures are expenses incurred to maintain or repair common area assets, but which are not necessarily expected to improve the value or extend the life expectancy of the asset.

East Village Homeowners Association Annual Expenditure Detail

Report Date February 09, 2021
Beginning Fiscal Year January 01, 2021
Account Number OR-1601-000

Version Number Level 3

Description	Expenditures
<i>No Replacement in 2021</i>	
<i>No Replacement in 2022</i>	
Replacement Year 2023	
Landscaping & Irrigation	
Landscape Irrigation-Timers	1,061
Pavement	
Concrete Sidewalks-Repair (Clay St)	572
Total for 2023	\$1,633
Replacement Year 2024	
Fencing	
Front Yard Landscape Renovation (1)	7,103
Landscaping & Irrigation	
Landscape Irrigation-Double-Check Valve (2")	1,093
Pavement	
Concrete Sidewalks-Repair (Abbott Ave)	3,633
Total for 2024	\$11,829
Replacement Year 2025	
Landscaping & Irrigation	
Front Yard Landscape Renovation (2)	7,316
Pavement	
Concrete Sidewalks-Repair (Engle St)	1,443
Total for 2025	\$8,759
Replacement Year 2026	
Fencing	
Front Yard Landscape Renovation (3)	7,535

**East Village Homeowners Association
Annual Expenditure Detail**

Description	Expenditures
<i>Replacement Year 2026 continued...</i>	
Pavement	
Concrete Sidewalks-Repair (Dollarhide Way)	3,387
Total for 2026	\$10,922
<i>No Replacement in 2027</i>	
Replacement Year 2028	
Pavement	
Concrete Sidewalks-Repair (Clay St)	663
Total for 2028	\$663
Replacement Year 2029	
Pavement	
Concrete Sidewalks-Repair (Abbott Ave)	4,212
Total for 2029	\$4,212
Replacement Year 2030	
Pavement	
Concrete Sidewalks-Repair (Engle St)	1,673
Total for 2030	\$1,673
Replacement Year 2031	
Pavement	
Concrete Sidewalks-Repair (Dollarhide Way)	3,926
Total for 2031	\$3,926
<i>No Replacement in 2032</i>	
Replacement Year 2033	
Landscaping & Irrigation	
Landscape Irrigation-Timers	1,426
Pavement	
Concrete Sidewalks-Repair (Clay St)	769
Total for 2033	\$2,194

**East Village Homeowners Association
Annual Expenditure Detail**

Description	Expenditures
Replacement Year 2034	
Pavement	
Concrete Sidewalks-Repair (Abbott Ave)	4,883
Total for 2034	\$4,883
Replacement Year 2035	
Pavement	
Concrete Sidewalks-Repair (Engle St)	1,940
Total for 2035	\$1,940
Replacement Year 2036	
Pavement	
Concrete Sidewalks-Repair (Dollarhide Way)	4,551
Total for 2036	\$4,551
<i>No Replacement in 2037</i>	
Replacement Year 2038	
Pavement	
Concrete Sidewalks-Repair (Clay St)	891
Total for 2038	\$891
Replacement Year 2039	
Pavement	
Concrete Sidewalks-Repair (Abbott Ave)	5,661
Total for 2039	\$5,661
Replacement Year 2040	
Pavement	
Concrete Sidewalks-Repair (Engle St)	2,249
Total for 2040	\$2,249
Replacement Year 2041	
Pavement	
Concrete Sidewalks-Repair (Dollarhide Way)	5,276
Total for 2041	\$5,276

East Village Homeowners Association
Annual Expenditure Detail

Description	Expenditures
<i>No Replacement in 2042</i>	
Replacement Year 2043	
Landscaping & Irrigation	
Landscape Irrigation-Timers	1,916
Pavement	
Concrete Sidewalks-Repair (Clay St)	1,033
Total for 2043	\$2,949
Replacement Year 2044	
Fencing	
Front Yard Landscape Renovation (1)	12,828
Landscaping & Irrigation	
Landscape Irrigation-Double-Check Valve (2")	1,974
Pavement	
Concrete Sidewalks-Repair (Abbott Ave)	6,562
Total for 2044	\$21,364
Replacement Year 2045	
Landscaping & Irrigation	
Front Yard Landscape Renovation (2)	13,213
Pavement	
Concrete Sidewalks-Repair (Engle St)	2,607
Total for 2045	\$15,820
Replacement Year 2046	
Fencing	
Front Yard Landscape Renovation (3)	13,610
Pavement	
Concrete Sidewalks-Repair (Dollarhide Way)	6,116
Total for 2046	\$19,726
<i>No Replacement in 2047</i>	

**East Village Homeowners Association
Annual Expenditure Detail**

Description	Expenditures
Replacement Year 2048	
Pavement	
Concrete Sidewalks-Repair (Clay St)	1,198
Total for 2048	\$1,198
Replacement Year 2049	
Pavement	
Concrete Sidewalks-Repair (Abbott Ave)	7,607
Total for 2049	\$7,607
Replacement Year 2050	
Pavement	
Concrete Sidewalks-Repair (Engle St)	3,022
Total for 2050	\$3,022

East Village Homeowners Association
Expenditures by Group

Description	Date in Service	Replacement Year	Useful	Adjustment	Remaining	Units	Unit Cost	Current Cost
Capital								
Front Yard Landscape Renovation (1)	2004	2024	20	0	3	13 Units	500.00	6,500
Front Yard Landscape Renovation (2)	2005	2025	20	0	4	13 Units	500.00	6,500
Front Yard Landscape Renovation (3)	2006	2026	20	0	5	13 Units	500.00	6,500
Landscape Irrigation-Double-Check Valve (2")	2004	2024	20	0	3	1 Total	1,000.00	1,000
Landscape Irrigation-Timers	2013	2023	10	0	2	2 Each	500.00	<u>1,000</u>
Capital - Total								\$21,500
Non-Capital								
Concrete Sidewalks-Repair (Abbott Ave)	2004	2024	5	15	3	7,000 SF	9.50@ 5%	3,325
Concrete Sidewalks-Repair (Clay St)	2018	2023	5	0	2	1,135 SF	9.50@ 5%	539
Concrete Sidewalks-Repair (Dollarhide Way)	2016	2026	5	5	5	6,150 SF	9.50@ 5%	2,921
Concrete Sidewalks-Repair (Engle St)	2004	2025	5	16	4	2,700 SF	9.50@ 5%	<u>1,282</u>
Non-Capital - Total								\$8,068
Total Asset Summary								\$29,568

APPENDIX

East Village Homeowners Association
Distribution of Accumulated Reserves

Report Date	February 09, 2021			
Beginning Fiscal Year	January 01, 2021			
Account Number	OR-1601-000			Version Number Level 3

Description	Remaining Life	Replacement Year	Assigned Reserves	Fully Funded Reserves
Concrete Sidewalks-Repair (Clay St)	2	2023	539	323
Landscape Irrigation-Timers	2	2023	1,000	800
Landscape Irrigation-Double-Check Valve (2")	3	2024	1,000	850
Concrete Sidewalks-Repair (Abbott Ave)	3	2024	3,325	2,826
Front Yard Landscape Renovation (1)	3	2024	6,500	5,525
Concrete Sidewalks-Repair (Engle St)	4	2025	1,282	1,038
Front Yard Landscape Renovation (2)	4	2025	6,500	5,200
Concrete Sidewalks-Repair (Dollarhide Way)	5	2026	2,921	1,461
Front Yard Landscape Renovation (3)	5	2026	6,500	4,875
Total Asset Summary			<hr style="border: 0.5px solid black;"/> \$33,146	<hr style="border: 0.5px solid black;"/> \$22,899

Excess Funds:

East Village Homeowners Association
Component Report Details

Report Date	February 09, 2021	Version Number	Level 3
Beginning Fiscal Year	January 01, 2021		
Account Number	OR-1601-000		

Concrete Sidewalks-Repair (Clay St) - 2023		1,135 SF	@ \$9.50
Asset ID		Asset Actual Cost	\$539.12
Category	Non-Capital Pavement	Percent Replacement	5%
Placed in Service	January 2018	Future Cost	\$571.96
Useful Life	5	Assigned Reserves	\$539.12
Replacement Year	2023	Monthly Assessment	\$3.25
Remaining Life	2	Interest Contribution	<u>\$0.19</u>
		Reserve Allocation	\$3.44

This component provides funding for repairing the sidewalks along Clay Street . Funding is scheduled to occur every 5 years beginning in 2018.

Landscape Irrigation-Timers - 2023		2 Each	@ \$500.00
Asset ID		Asset Actual Cost	\$1,000.00
Category	Capital Landscaping & Irrigation	Percent Replacement	100%
Placed in Service	January 2013	Future Cost	\$1,060.90
Useful Life	10	Assigned Reserves	\$1,000.00
Replacement Year	2023	Monthly Assessment	\$6.02
Remaining Life	2	Interest Contribution	<u>\$0.36</u>
		Reserve Allocation	\$6.38

This component provides funding for replacement of the landscape irrigation timers. Funding is scheduled to occur every 10 years beginning in 2023.

East Village Homeowners Association
Component Report Details

Concrete Sidewalks-Repair (Abbott Ave) - 2024

Asset ID	7,000 SF	@ \$9.50
Category	Asset Actual Cost	\$3,325.00
Placed in Service	Percent Replacement	5%
Useful Life	Future Cost	\$3,633.32
Adjustment	Assigned Reserves	\$3,325.00
Replacement Year	Monthly Assessment	\$20.32
Remaining Life	Interest Contribution	<u>\$1.20</u>
	Reserve Allocation	\$21.51

This component provides funding for repairing the sidewalks along Clay Street . Funding is scheduled to occur every 5 years beginning in 2024.

Front Yard Landscape Renovation (1) - 2024

Asset ID	13 Units	@ \$500.00
Category	Asset Actual Cost	\$6,500.00
Placed in Service	Percent Replacement	100%
Useful Life	Future Cost	\$7,102.73
Replacement Year	Assigned Reserves	\$6,500.00
Remaining Life	Monthly Assessment	\$39.72
	Interest Contribution	<u>\$2.34</u>
	Reserve Allocation	\$42.06

This component provides funding for renovation of the front yard area landscaping at 13 of the 39 homes. Funding is scheduled to occur every 20 years beginning in 2024.

East Village Homeowners Association
Component Report Details

Landscape Irrigation-Double-Check Valve (2") - 2024

Asset ID	Capital	1 Total	@ \$1,000.00
Category		Asset Actual Cost	\$1,000.00
Placed in Service	January 2004	Percent Replacement	100%
Useful Life	20	Future Cost	\$1,092.73
Replacement Year	2024	Assigned Reserves	\$1,000.00
Remaining Life	3	Monthly Assessment	\$6.11
		Interest Contribution	<u>\$0.36</u>
		Reserve Allocation	\$6.47

This component provides funding for replacement of the 2" double-check valve that is part of the landscape irrigation system. Funding is scheduled to occur every 20 years beginning in 2024.

Concrete Sidewalks-Repair (Engle St) - 2025

Asset ID	Non-Capital	2,700 SF	@ \$9.50
Category	Pavement	Asset Actual Cost	\$1,282.50
Placed in Service	January 2004	Percent Replacement	5%
Useful Life	5	Future Cost	\$1,443.46
Adjustment	16	Assigned Reserves	\$1,282.50
Replacement Year	2025	Monthly Assessment	\$7.95
Remaining Life	4	Interest Contribution	<u>\$0.46</u>
		Reserve Allocation	\$8.42

This component provides funding for repairing the sidewalks along Engle Street . Funding is scheduled to occur every 5 years beginning in 2025.

Front Yard Landscape Renovation (2) - 2025

Asset ID	Capital	13 Units	@ \$500.00
Category		Asset Actual Cost	\$6,500.00
Placed in Service	January 2005	Percent Replacement	100%
Useful Life	20	Future Cost	\$7,315.81
Replacement Year	2025	Assigned Reserves	\$6,500.00
Remaining Life	4	Monthly Assessment	\$40.32
		Interest Contribution	<u>\$2.34</u>
		Reserve Allocation	\$42.66

This component provides funding for renovation of the front yard area landscaping at 13 of the 39

East Village Homeowners Association
Component Report Details

Front Yard Landscape Renovation (2) continued...

homes. Funding is scheduled to occur every 20 years beginning in 2025.

Concrete Sidewalks-Repair (Dollarhide Way) - 2026

Asset ID	6,150 SF	@ \$9.50
	Asset Actual Cost	\$2,921.25
Category	Percent Replacement	5%
Placed in Service	Pavement	\$3,386.53
Useful Life	January 2016	Assigned Reserves
Adjustment	5	\$2,921.25
Replacement Year	2026	Monthly Assessment
Remaining Life	5	Interest Contribution
		\$18.39
		\$1.05
		Reserve Allocation
		\$19.44

This component provides funding for repairing the sidewalks along Dollarhide Way. Funding is scheduled to occur every 5 years beginning in 2026.

Front Yard Landscape Renovation (3) - 2026

Asset ID	13 Units	@ \$500.00
	Asset Actual Cost	\$6,500.00
Category	Percent Replacement	100%
Placed in Service	Capital	\$7,535.28
Useful Life	Fencing	Assigned Reserves
Replacement Year	January 2006	\$6,500.00
Remaining Life	20	Monthly Assessment
	2026	Interest Contribution
	5	\$40.93
		\$2.34
		Reserve Allocation
		\$43.27

This component provides funding for renovation of the front yard area landscaping at 13 of the 39 homes. Funding is scheduled to occur every 20 years beginning in 2026.

East Village Homeowners Association Glossary

Abbreviations

Btu – British thermal unit
CFM – Cubic feet per minute
CY – Cubic yard
EA – Each
FYE – Fiscal year end or fiscal year ending
GPM – Gallons per minute
LBS – Pounds
LF – Lineal foot
MBH – Thousand Btu per hour
NCE – National Construction Estimator CostBooks® construction cost estimating database
RSM – RS Means CostWorks® construction cost estimating database
SF – Square foot
SQ – 100 square feet (commonly used unit of measure for shingle roofing)
SY – Square yard
TSF – Total square feet
YR – Year

Reserve Study Terms

Accumulated Reserves -The accumulated reserves are the funds available to pay for reserve expenditures as of the first day of the current budget cycle. The accumulated reserve balance may or may not include the reserve contribution for the current year depending on whether the reserve contribution is made at the beginning of the budget year or throughout the course of the year. The terms beginning balance and starting balance are also used in some reserve studies.

Capital Expense – For the purposes of this reserve funding analysis The AICPA definition of capital expense shall apply, as follows: Funds expended for improvements, or major repairs or replacements or improvements of property components that extend their useful lives or service periods.

Cash Flow Funding – Cash flow funding is a reserve funding model which is designed to generate sufficient cash flow to pay for the reserve expenditures set forth in the reserve study as opposed to a funding schedule that accumulates reserves in correlation with the rate at which the capital assets are losing value due to depreciation. Under a cash flow funding model, the accumulated reserves at any point in time may or may not offset the asset value that has been lost to depreciation. When the accumulated reserve fund balance is equal to or greater than the value that has been lost to depreciation the reserves are said to be fully funded or 100% funded.

Common Elements - Common Elements are the assets and improvements that are commonly owned by the members of the Association and which are maintained, repaired and replaced at the Association's expense. Common elements may be limited common elements meaning they are used by some but not all association members or they may be a general common element, which means they are intended for the use and benefit of all association members.

Component – In the context of reserve planning a component is an expense identified in the reserve study that will be paid for with funds from the reserve account.

Component Funding – Component Funding is a funding method which allocates reserves to each component

East Village Homeowners Association Glossary

based on the projected replacement cost and remaining life expectancy as of the beginning date of the current fiscal reporting period. The projected replacement cost is then amortized over the remaining life expectancy of the component and the accumulated reserves are allocated by dividing the future replacement cost by the number of years remaining until replacement is scheduled to occur.

Component Funding utilizes a different math model from that which is used to calculate Cash Flow Funding Projections and is therefore considered an alternative reserve funding methodology to Cash Flow Funding. Component Funding is typically utilized when the goal is to generate annual reserve contributions which offset the loss in value associated with the depreciation of the components which are the subject of the funding analysis.

Component Inventory – A list of all components included in the replacement reserve funding schedule.

Current Assessment Funding Model - Current Assessment Funding is a cash flow funding method which begins with a first-year reserve contribution equal to the current annual reserve contribution which has been scheduled by the Association or an amount specified by the Board of Directors or the Reserve Specialist®.

Current Assessment Funding is often used when an Association has already approved the annual reserve contribution for the upcoming budget year; or when it is necessary to specify the reserve fund contribution rather than allowing the reserve study software to calculate the contribution.

Effective Age – The effective age is the difference between useful life expectancy and the remaining useful life of a component. The effective age is not always equivalent to the chronological age of the component due to the tendency for similar components to age at differing rates because of unique characteristics of the individual components.

Expected Useful Life (EUL) - The generally accepted life expectancy of a component from the time it is placed into service as a new component until the time when major renovation, renewal or replacement of the component is required in order to maintain the quality, performance and usefulness of the component.

Financial Analysis – The section of the reserve study which analyzes the current and future financial implications of the reserve funding obligations set forth in the study. The current analysis provides information regarding the current reserve fund status as of the first day of the current reporting period. The future analysis addresses the financial obligations established by the reserve study based on the future component expenditures and replacement schedules set forth in the study.

Fiscal Year – An accounting term used to describe a one-year reporting cycle other than a January 1-December 31 cycle (calendar year), although the term “fiscal year” is often used to describe any one-year financial reporting cycle, including a calendar year reporting cycle. The fiscal year is identified by the year when the reporting cycle ends. Hence, if the fiscal year ends on June 30th then the fiscal year ending on June 30, 2020 is referred to as the 2020 fiscal year or fiscal year 2020 (FY2020).

Fully Funded Balance – The term Fully Funded means that the amount of money allocated to pay for each funded reserve expense is equal to the amount derived from the following formula:

Fully Funded = PV x CA / EUL.

Where PV = present value; CA = current age; and EUL = expected useful life.

The Fully Funded balance is the cumulative amount required to achieve Full Funding for all of the components

East Village Homeowners Association Glossary

included in the replacement reserve funding schedule. The present value is always the future replacement cost adjusted for inflation as of the beginning date of the current reserve study. This concept is explained in more detail under the definition of Percent Funded.

It is important to note that full funding does not mean that 100% of the projected replacement cost is available to pay for the expense in question at any particular point in time. Rather it means the current level of funding is equal to the value of the component or components that has been lost to depreciation. If a component is projected to cost \$20,000 to replace and it has a 20-year life expectancy then it will depreciate at the rate of \$1,000 per year. At year 10, the component will have lost \$10,000 of its economic value and hence the allocated reserves at the end of the 10th year would need to be \$10,000 in order for the component to be Fully Funded.

Funding Projection – A schedule which projects the annual reserve funding contributions required to meet the reserve funding requirements set forth in the reserve study. When the reserve funding projection begins with the first day of the current reporting period the reserve study is said to be current. The reserve funding projections contained in most studies encompass a period of thirty years but can encompass any number of years.

Financial Analysis – The section of the reserve funding study which analyzes the current and future financial implications of the reserve funding obligations presented in the study. The current analysis provides information regarding the current reserve fund status as of the first day of the current reporting period. The future analysis discusses the financial obligations implied by the reserve funding study based on the future component expenditures and replacement schedules set forth in the study.

Funding Velocity – Funding Velocity is a dynamic value utilized when Component Funding is used to generate the annual reserve funding projection. The Funding Velocity influences the percent funded level and determines how quickly the reserve fund will reach Fully Funded status; with 100% used as a baseline. If a Funding Velocity greater than 100% is required to achieve a Fully Funded reserve fund balance, the current funding levels would be considered low. If a Funding Velocity less than 100% is sufficient to accomplish full funding of the reserve account then the current funding levels are considered strong. The degree to which the Funding Velocity deviates from 100% is considered a relative measurement of the strength of an Association's reserve funding plan.

Legacy Systems – Also referred to as legacy components, the term refers to a class of commonly-owned assets that date to the original construction of the development and which are typically expected to achieve a useful service life that is beyond 30 years. In some cases, the service life of legacy systems may be significantly longer than 30 years. In those instances where the life expectancy of the component exceeds 40 to 50 years the need to replace or renew the component may only occur one time in the course of a 100-year period.

Percent Funded Level - The percent funded level measures the relationship between the accumulated reserves and amount of money required to achieve a Fully Funded reserve account at a given point in time. A Fully Funded reserve account occurs when the accumulated reserves are equal to the value of the value of the components that has been lost to depreciation.

When the reserve account is Fully Funded the percent funded level is 100%. Therefore, if 100% represents a Fully Funded level of reserves, then a reserve fund which is 60% funded would contain actual cash reserves equal to 60% of the amount necessary to be 100% funded.

To calculate the percent funded level for a reserve fund containing more than one component expenditure this calculation is performed for each component and the sum total is the amount required to achieve Full Funding.

East Village Homeowners Association Glossary

Hence, the percent funded level for a typical reserve fund represents an average of the percent funded level for all of the components that are included in the reserve funding analysis.

Physical Analysis – The physical analysis includes four elements: development of the component inventory; conducting the condition assessment; determining the remaining useful life of the components and preparing a replacement cost analysis. The information obtained while conducting the physical analysis is the primary data that determines the reserve funding schedule established in the reserve funding study.

Property Condition Assessment – A property condition assessment (PCA) is a walk-through survey conducted for the purpose of establishing the current physical condition and remaining life expectancy of the assets and improvements which are the subject of the inspection. The written report that results from a PCA is known as a Property Condition Report or PCR.

A Baseline Property Condition Assessment that meets the ASTM E2018-08 standard will also identify physical deficiencies in the subject property and includes an examination of construction documents and interviews with property managers, maintenance personnel and other individuals who possess specific knowledge about the subject property for the purpose of gaining additional insight into the physical condition and maintenance requirements for the property. The document is referred to as a Baseline Property Condition Assessment report.

Remaining Useful Life (RUL) - The remaining life is the number of years that remain until a component reaches the end of its service life or until major renovation or renewal of the component is expected to be required. The remaining useful life analysis is used to develop the schedule of reserve fund expenditures that appears in the reserve study.

Replacement Reserves - Replacement reserves are funds collected from Association members that will be used to pay for repair and replacement of common area components according to the repair and replacement schedules contained in the reserve study. These funds should be held in a separate account and not co-mingled with operating funds.

Statutory Funding – Funding of the reserve account at a level required by local or state statutes. As of 2017 the only state with a statutory funding requirement for homeowners associations is Hawaii.

Threshold Funding Method – Threshold funding is a cash flow funding model that allows the Reserve Specialist® to specify a minimum balance for the Association's reserve account and creates a funding projection which results in the fund balance never dropping below the predetermined minimum balance. The minimum fund balance established for the fund is known as the funding threshold.

Transition Inspection – The inspection of Association property at or near the time period when control of the Board of Directors passes from the Declarant to a board comprised of unit owners other than the original declarant. The transition inspection is an extremely important process which should be undertaken by a qualified architect or engineer to ensure the interests of the community are protected.

The statute of limitations concerning construction defects varies from one jurisdiction to another. The Association's right to legal recourse for defective products and installations may be compromised if they fail to document the current condition of their property during this transitional period. In addition, warranties in effect could be impacted by the failure to perform timely inspections of components under warranty.

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Total Assets	9	