

RESERVE STUDY POLICY

It is RESOLVED in order to properly maintain the common area, protect market value of members' homes and livability in the community, the Board of Directors establishes a Reserve Study policy as follows:

1. **ALL REPAIR/REPLACE RESERVE FUNDS:**

- A. Must be distinguished from Operating funds and other established Reserve funds. These Reserve Funds are to be maintained in a separate bank account.
- B. The current amount in the Reserve Fund should exceed the annual dollar value of projected reserve payout.
- C. The pro forma budget must contain reserve information.
- D. Established a goal to maintain the reserve account - such as "to build the reserve account to 80% of the estimate Reserves Required To Date with Inflation Factor."
- E. Reserve deficits, if any, should decrease over time.
- F. The replacement costs should include an inflation factor added to the cost data.
- G. The inflation factor is from a long-term inflation scale.
- H. It is important to annually review and update projected expenditures, inflation factors, and other assumptions.
- I. Reserve Funds are not to be used for non-reserve expenditures.

2. **RESERVE STUDY DEFINED.** The Board shall have a Reserve Study performed that meets the standards of the American Institute of Certified Public Accountants and includes these criteria:

- A. Identifies all components that are the homeowner association's responsibility to repair or replace that have a useful life in excess of one full year. (A "component" is a physical item that deteriorates over time and needs to be repaired or replaced.)
- B. Assigns a reasonable cost of repair or replacement to each component based on current costs for the area.
- C. Assigns a reasonable useful life to each component based on local conditions.
- D. Lays out a 30-year Repair & Replacement Schedule which identifies the years when each component work will be performed including the inflation adjusted cost.

- E. Establishes a 30 Year Funding Plan--hereafter referred to as the "30-Year Plan"-- which takes into consideration the costs of repairs and replacements, contributions from members, impact of inflation, revenue generated from invested reserve funds and taxes owing on interest earned.
 - F. Whenever possible, the 30-Year Plan shall include adequate "Regular Annual Assessments" from members to meet projected costs without the need for "Supplementary Assessments."
 - G. The 30-Year Plan shall include a "Percent Funded" factor.
3. **ANNUAL REVIEW & REVISION**. The 30-Year Plan shall be reviewed and revised annually to reflect changes in costs, inflation, interest yield on invested funds plus modification, addition or deletion of components in the Plan. It will also reflect changes in costs; inflation and interest yield on invested funds.

Approved by the Board of Directors on January 16, 2007
and Recorded in the Book of Minutes.