The Management Trust

Barrington Heights Wellington Place
West Linn, Oregon
Account 2019 Offsite Update -- Version 1
September 24, 2018

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Barrington Heights Wellington Place
West Linn, Oregon
TR Trust Reserves Funding Model Summary

Report Date	September 24, 2018
Account Number	2019 Offsite Update
Version	1
Budget Year Beginning	January 01, 2019
Budget Year Ending	December 31, 2019
Total Units	5

Report Parameters

Inflation	3.00%
Interest Rate on Reserve Deposit	0.50%
2019 Beginning Balance	$1,400

Disclosures:

Physical Analysis - An on-site reserve study was performed observations were limited to visual observations only. Destructive testing (invasive testing) was not performed. Any items that were not clearly visible at the time of the site observation were not viewed, and therefore were not included in the drafting of this reserve study.

Measurements - Measuring and inventory (+/- 10%) were identified via a combination of onsite physical measurements, previous reserve study and/or drawing take-offs. Drawing sets (if used) were provided by the property manager or Declarant for our use relating only to the reserve study scope of work.

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- Warranty or Guaranty - This reserve study and its recommendations should not be construed in any way to constitute a warranty or guaranty regarding the current or future performance of the components. Components will be replaced as required, not necessarily in their expected replacement year.

- Annual Updates - Often times there can be a significant expenditure in those years that exceeds the life of the reserve study. Hence, annual updates should be performed to allow adjustments in the reserve contribution each year if required.

- Ongoing Maintenance - The reserve study component life cycles assumes that assets are inspected and maintained on an ongoing scheduled basis funded with operating budget funds and/or reserve funds set aside for this work. For example, an asphalt overlay surface should have a seal coating applied every 4 to 5 years in order to achieve the estimated expected life cycle of 30 years. Failure to perform maintenance per the recommended schedule may adversely impact the condition of said assets and have undesired affects on reserve funding.

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- We recommend a building envelope (water intrusion) inspection for the Building every two years and a roofing inspection every six years (not funded in the reserve).

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A tabular list of commonly owned items has been developed and given a current condition grade, expected useful life, and remaining useful life. A portion of that data will determine in what year it is estimated the component should be replaced.

The percent funded ratings recognized by industry standards is:

0-30% - poor

31-70% - fair

71-100% - good

Trust Reserves Funding Model Summary of Calculations

Required Annual Contribution	$700.00
$140.00 per unit annually	
Average Net Annual Interest Earned	$10.50
Total Annual Allocation to Reserves	$710.50
$142.10 per unit annually	

Barrington Heights Wellington Place
TR Trust Reserves Funding Model Projection

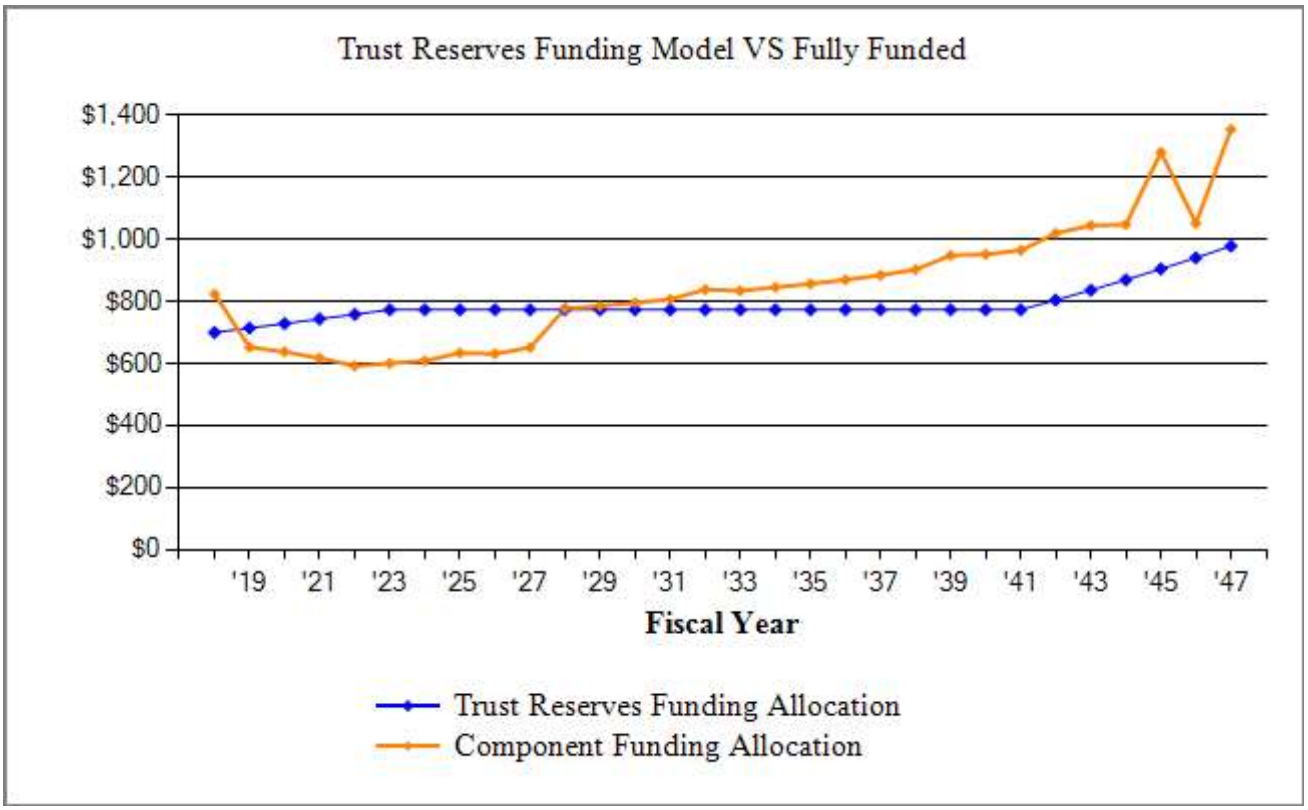
Beginning Balance: $1,400

Year	Current Cost	Annual Contribution	Annual Interest	Annual Expenditures	Projected Ending Reserves	Fully Funded Reserves	Percent Funded
2019	6,493	700	10		2,110	4,730	45%
2020	6,688	703	14		2,828	5,058	56%
2021	6,889	707	12	1,054	2,494	4,394	57%
2022	7,095	711	16		3,220	4,804	67%
2023	7,308	714	20		3,954	5,234	76%
2024	7,528	718	23		4,695	5,685	83%
2025	7,753	721	27		5,443	6,159	88%
2026	7,986	725	31		6,199	6,657	93%
2027	8,226	728	35		6,962	7,178	97%
2028	8,472	732	19	3,906	3,808	3,819	100%
2029	8,726	736	23		4,566	4,396	104%
2030	8,988	739	27		5,332	5,003	107%
2031	9,258	743	30		6,106	5,643	108%
2032	9,536	747	34		6,887	6,317	109%
2033	9,822	751	38		7,676	7,026	109%
2034	10,116	754	42		8,472	7,772	109%
2035	10,420	758	38	1,594	7,675	6,915	111%
2036	10,732	762	42		8,479	7,690	110%
2037	11,054	766	46		9,291	8,506	109%
2038	11,386	770	50		10,111	9,363	108%
2039	11,728	773	54		10,939	10,265	107%
2040	12,079	777	59		11,774	11,212	105%
2041	12,442	781	63		12,618	12,207	103%
2042	12,815	812	57	1,960	11,528	11,232	103%
2043	13,200	845	42	4,066	8,349	8,079	103%
2044	13,596	879	46		9,274	9,041	103%
2045	14,003	914	13	7,548	2,653	2,408	110%
2046	14,423	950	18		3,621	3,377	107%
2047	14,856	988	23		4,632	4,402	105%
2048	15,302	1,028	28		5,689	5,486	104%

Barrington Heights Wellington Place
TR Distribution by Percentage of Ideally Funded

Description	Remaining Life	Ideally Funded	Beginning Balance	Percent Funded	Assessment Distributed	Interest Distributed	Expenditures	Ending Balance
Wellington								
Asphalt Overlay		*Unfunded*						
Asphalt Sealcoat & Repairs	2	851	270	32%	135	2		407
Concrete Maintenance	9	1,581	501	32%	251	4		756
Underground Lines	26	1,983	629	32%	314	5		948
Wellington - Total		$4,416	$1,400	32%	$700	$10		$2,110
Grand - Total		$4,416	$1,400		$700	$10		$2,110

Barrington Heights Wellington Place
TR Trust Reserves Funding Model VS Fully Funded Chart



The Trust Reserves Funding Model is based on the cashflow, parameters, and reserve fund balance. Because it is calculated using the cashflow, it will give the accurate projection of how well the association is funded for the next 30 years of planned reserve expenditures.

Barrington Heights Wellington Place
TR Category Detail Index

Asset ID	Description	Replacement	Page
1029	Asphalt Overlay	Unfunded	10
1026	Asphalt Sealcoat & Repairs	2021	11
1028	Concrete Maintenance	2028	12
1027	Underground Lines	2045	13

Total Funded Assets	3
Total Unfunded Assets	1
Total Assets	4

Asphalt Overlay

		4,515 Square Feet	@ $1.60
Asset ID	1029	Asset Cost	$7,224.00
		Percent Replacement	100%
	Wellington	Future Cost	$20,937.16
Placed in Service	January 1985	Assigned Reserves	
Useful Life	40		
Adjustment	30	Annual Assessment	No Assessment
Replacement Year	2055	Interest Contribution	
Remaining Life	36	Reserve Allocation	

Remarks:

This line item is for the 1 1/2" to 2" overlay on the asphalt streets and basketball court in the common area. Includes re-setting of the manhole or valve covers and grinding of edges as required.

Regular sealcoating will help prolong this component to exceed thirty (30) years.

Asphalt Sealcoat & Repairs - 2021

		4,515 Square Feet	@ $0.22
Asset ID	1026	Asset Cost	$993.30
		Percent Replacement	100%
	Wellington	Future Cost	$1,053.79
Placed in Service	January 2007	Assigned Reserves	$134.96
Useful Life	7		
Adjustment	7	Annual Assessment	$134.96
Replacement Year	2021	Interest Contribution	$2.02
Remaining Life	2	Reserve Allocation	$136.98

Remarks:

This item is the seal coating (slurry seal) of the asphalt surface and includes any re-striping, crack repair, or alligatoring sealing as needed.

Concrete Maintenance - 2028

		1 Allowance	@ $2,000.00
Asset ID	1028	Asset Cost	$2,000.00
		Percent Replacement	100%
	Wellington	Future Cost	$2,609.55
Placed in Service	January 1985	Assigned Reserves	$250.67
Useful Life	15		
Adjustment	28	Annual Assessment	$250.67
Replacement Year	2028	Interest Contribution	$3.76
Remaining Life	9	Reserve Allocation	$254.43

Remarks:

This item is an allowance to repair cracks and breaks that can occur as the ground underneath the cement settles over the years. Inspect sidewalks and staircases for tripping hazards. Grind down and replace selected sections as needed.

Underground Lines - 2045

		1 Allowance	@ $3,500.00
Asset ID	1027	Asset Cost	$3,500.00
		Percent Replacement	100%
	Wellington	Future Cost	$7,548.07
Placed in Service	January 1985	Assigned Reserves	$314.38
Useful Life	30		
Adjustment	30	Annual Assessment	$314.38
Replacement Year	2045	Interest Contribution	$4.72
Remaining Life	26	Reserve Allocation	$319.09

Remarks:

This item is an allowance for any work required on the common area underground utilities including the waste product lines.

Detail Report Summary

Grand Total

Assigned Reserves	$2,100.00
Annual Contribution	$700.00
Annual Interest	$14.00
Annual Allocation	$714.00

Barrington Heights Wellington Place
TR Annual Expenditure Detail

Description	Expenditures
No Replacement in 2019	
No Replacement in 2020	
Replacement Year 2021	
Asphalt Sealcoat & Repairs	1,054
Total for 2021	**$1,054**
No Replacement in 2022	
No Replacement in 2023	
No Replacement in 2024	
No Replacement in 2025	
No Replacement in 2026	
No Replacement in 2027	
Replacement Year 2028	
Asphalt Sealcoat & Repairs	1,296
Concrete Maintenance	2,610
Total for 2028	**$3,906**
No Replacement in 2029	
No Replacement in 2030	
No Replacement in 2031	
No Replacement in 2032	
No Replacement in 2033	
No Replacement in 2034	
Replacement Year 2035	
Asphalt Sealcoat & Repairs	1,594
Total for 2035	**$1,594**
No Replacement in 2036	
No Replacement in 2037	
No Replacement in 2038	
No Replacement in 2039	
No Replacement in 2040	
No Replacement in 2041	
Replacement Year 2042	
Asphalt Sealcoat & Repairs	1,960
Total for 2042	**$1,960**

Barrington Heights Wellington Place
TR Annual Expenditure Detail

Description	Expenditures
Replacement Year 2043	
Concrete Maintenance	4,066
Total for 2043	**$4,066**
No Replacement in 2044	
Replacement Year 2045	
Underground Lines	7,548
Total for 2045	**$7,548**

Barrington Heights Wellington Place
West Linn, Oregon
TR Threshold Funding Model Summary

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Budget Year Ending	December 31, 2019
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Threshold Funding Model Summary of Calculations

Required Annual Contribution	$467.92
$93.58 per unit annually	
Average Net Annual Interest Earned	$9.34
Total Annual Allocation to Reserves	$477.26
$95.45 per unit annually	

Barrington Heights Wellington Place
TR Threshold Funding Model Projection

Beginning Balance: $1,400

Year	Current Cost	Annual Contribution	Annual Interest	Annual Expenditures	Projected Ending Reserves	Fully Funded Reserves	Percent Funded
2019	6,493	468	9		1,877	4,730	40%
2020	6,688	482	12		2,371	5,058	47%
2021	6,889	496	9	1,054	1,823	4,394	41%
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2028	8,472	611	10	3,906	1,957	3,819	51%
2029	8,726	629	13		2,599	4,396	59%
2030	8,988	648	16		3,263	5,003	65%
2031	9,258	667	20		3,950	5,643	70%
2032	9,536	687	23		4,660	6,317	74%
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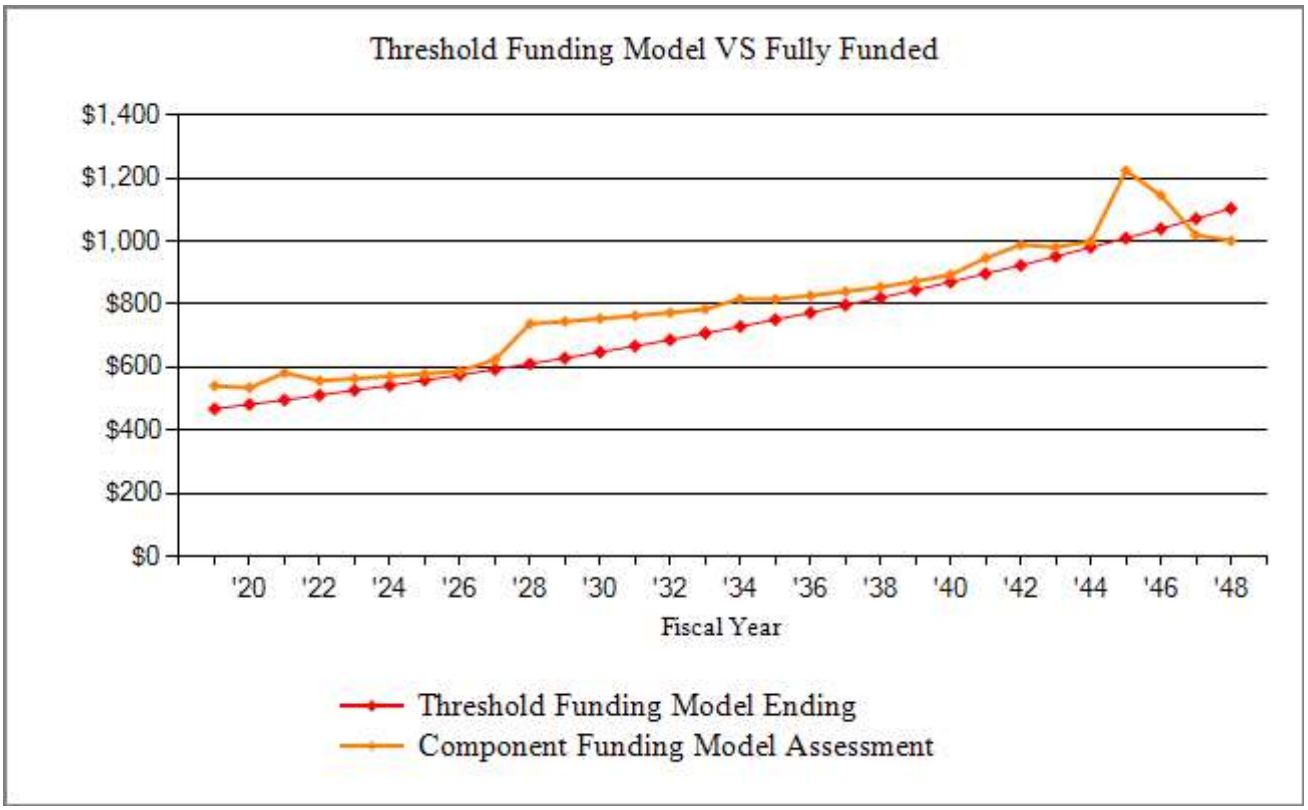
2047	14,856	1,071	16		3,136	4,402	71%
2048	15,302	1,103	21		4,260	5,486	78%

Barrington Heights Wellington Place
TR Threshold Funding Model VS Fully Funded Chart



The **Threshold Funding Model** calculates the minimum reserve assessments, with the restriction that the reserve balance is not allowed to go below $0 or other predetermined threshold, during the period of time examined. All funds for planned reserve expenditures will be available on the first day of each fiscal year. The **Threshold Funding Model** allows the client to choose the level of conservative funding they desire by choosing the threshold dollar amount.

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TR Component Funding Model Summary

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- RS Means Facilities Maintenance & Repair Cost Data, 16th Edition (2009) printed manual
- Interviewing General Contractor Consultants

A tabular list of commonly owned items has been developed and given a current condition grade, expected useful life, and remaining useful life. A portion of that data will determine in what year it is estimated the component should be replaced.

The percent funded ratings recognized by industry standards is:

0-30% - poor

31-70% - fair

71-100% - good

Component Funding Model Summary of Calculations

Required Annual Contribution	$540.99
$108.20 per unit annually	
Average Net Annual Interest Earned	$9.70
Total Annual Allocation to Reserves	$550.69
$110.14 per unit annually	

Barrington Heights Wellington Place
TR Component Funding Model Projection

Beginning Balance: $1,400

Year	Current Cost	Annual Contribution	Annual Interest	Annual Expenditures	Projected Ending Reserves	Fully Funded Reserves	Percent Funded
2019	6,493	541	10		1,951	4,730	41%
2020	6,688	535	12		2,498	5,058	49%
2021	6,889	582	10	1,054	2,037	4,394	46%
2022	7,095	557	13		2,606	4,804	54%
2023	7,308	564	16		3,186	5,234	61%
2024	7,528	571	19		3,776	5,685	66%
2025	7,753	579	22		4,377	6,159	71%
2026	7,986	588	25		4,990	6,657	75%
2027	8,226	624	28		5,642	7,178	79%
2028	8,472	738	12	3,906	2,487	3,819	65%
2029	8,726	745	16		3,248	4,396	74%
2030	8,988	754	20		4,022	5,003	80%
2031	9,258	763	24		4,808	5,643	85%
2032	9,536	773	28		5,609	6,317	89%
2033	9,822	784	32		6,425	7,026	91%
2034	10,116	817	36		7,279	7,772	94%
2035	10,420	816	33	1,594	6,533	6,915	94%
2036	10,732	827	37		7,397	7,690	96%
2037	11,054	840	41		8,278	8,506	97%
2038	11,386	854	46		9,178	9,363	98%
2039	11,728	872	50		10,100	10,265	98%
2040	12,079	893	55		11,048	11,212	99%
2041	12,442	946	60		12,054	12,207	99%
2042	12,815	988	55	1,960	11,137	11,232	99%
2043	13,200	981	40	4,066	8,093	8,079	100%
2044	13,596	999	45		9,138	9,041	101%
2045	14,003	1,223	14	7,548	2,827	2,408	117%
2046	14,423	1,145	20		3,991	3,377	118%
2047	14,856	1,019	25		5,036	4,402	114%
2048	15,302	1,001	30		6,067	5,486	111%

Important Information

This document has been provided pursuant to an agreement containing restrictions on its use. No part of this document may be copied or distributed, in any form or by any means, nor disclosed to third parties without the expressed written permission of Trust Reserves. The client shall have the right to reproduce and distribute copies of this report, or the information contained within, as may be required for compliance with all applicable regulations.

This reserve analysis study and the parameters under which it has been completed are based upon information provided to us in part by representatives of the association, its contractors, assorted vendors, specialist and independent contractors, the Community Association Institute, and various construction pricing and scheduling manuals including, but not limited to: Marshall & Swift Valuation Service, RS Means Facilities Maintenance & Repair Cost Data, RS Means Repair & Remodeling Cost Data, National Construction Estimator, National Repair & Remodel Estimator, Dodge Cost Manual and McGraw-Hill Professional. Additionally, costs are obtained from numerous vendor catalogues, actual quotations or historical costs, and our own experience in the field of property management and reserve study preparation.

It has been assumed, unless otherwise noted in this report, that all assets have been designed and constructed properly and that each estimated useful life will approximate that of the norm per industry standards and/or manufacturer's specifications. In some cases, estimates may have been used on assets, which have an indeterminable but potential liability to the association. The decision for the inclusion of these as well as all assets considered is left to the client.

We recommend that your reserve analysis study be updated on an annual basis due to fluctuating interest rates, inflationary changes, and the unpredictable nature of the lives of many of the assets under consideration. All of the information collected during our inspection of the association and computations made subsequently in preparing this reserve analysis study are retained in our computer files. Therefore, annual updates may be completed quickly and inexpensively each year.

Trust Reserves would like to thank you for using our services. We invite you to call us at any time, should you have questions, comments or need assistance. In addition, any of the parameters and estimates used in this study may be changed at your request, after which we will provide a revised study.

This reserve analysis study is provided as an aid for planning purposes and not as an accounting tool. Since it deals with events yet to take place, there is no assurance that the results enumerated within it will, in fact, occur as described.

Part II

Introduction

Preparing the annual budget and overseeing the association's finances are perhaps the most important responsibilities of board members. The annual operating and reserve budgets reflect the planning and goals of the association and set the level and quality of service for all of the association's activities.

Funding Options

When a major repair or replacement is required in a community, an association has essentially four options available to address the expenditure:

The first, and only logical means that the Board of Directors has to ensure its ability to maintain the assets for which it is obligated, is by **assessing an adequate level of reserves** as part of the regular membership assessment, thereby distributing the cost of the replacements uniformly over the entire membership. The community is not only comprised of present members, but also future members. Any decision by the Board of Directors to adopt a calculation method or funding plan which would disproportionately burden future members in order to make up for past reserve deficits, would be a breach of its fiduciary responsibility to those future members. Unlike individuals determining their own course of action, the board is responsible to the "community" as a whole.

Whereas, if the association was setting aside reserves for this purpose, using the vehicle of the regularly assessed membership dues, it would have had the full term of the life of the roof, for example, to accumulate the necessary moneys. Additionally, those contributions would have been evenly distributed over the entire membership and would have earned interest as part of that contribution.

The second option is for the association to **acquire a loan** from a lending institution in order to effect the required repairs. In many cases, banks will lend to an association using "future homeowner assessments" as collateral for the loan. With this method, the current board is pledging the future assets of an association. They are also incurring the additional expense of interest fees along with the original principal amount. In the case of a $150,000 roofing replacement, the association may be required to pay back the loan over a three to five year period, with interest.

The third option, too often used, is simply to **defer the required repair or replacement**. This option, which is not recommended, can create an environment of declining property values due to expanding lists of deferred maintenance items and the association's financial inability to keep pace with the normal aging process of the common area components. This, in turn, can have a seriously negative impact on sellers in the association by making it difficult, or even impossible, for potential buyers to obtain financing from lenders. Increasingly, lending institutions are requesting copies of the association's most recent reserve study before granting loans, either for the association itself, a prospective purchaser, or for an individual within such an association.

The fourth option is to pass a "**special assessment**" to the membership in an amount required to cover the expenditure. When a special assessment is passed, the association has the authority and responsibility to collect the assessments, even by means of foreclosure, if necessary. However, an association considering a special assessment cannot guarantee that an assessment, when needed, will be passed. Consequently, the association cannot guarantee its ability to perform the required repairs or replacements to those major components for which it is obligated when the need arises. Additionally, while relatively new communities require very little in the way of major "reserve" expenditures, associations reaching 12 to 15 years of age and older, find many components reaching the end of their effective useful lives. These required expenditures, all accruing at the same time, could be devastating to an association's overall budget.

Types of Reserve Studies

Most reserve studies fit into one of three categories:

Full Reserve Study;

Update with site inspection; and

Update without site inspection.

In 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 "funding plan".

In an **Update with site inspection**, the reserve provider conducts a component inventory (verification only, not quantification unless new components have been added to the inventory), a condition assessment (based upon on-site visual observations), and life and valuation estimates to determine both the "fund status and "funding plan."

In an **Update without site inspection**, the reserve provider conducts life and valuation estimates to determine the "fund status" and "funding plan."

The Reserve Study: A Physical and a Financial Analysis

There are two components of a reserve study: a physical analysis and a financial analysis.

Physical Analysis

During the physical analysis, a reserve study 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.

Developing a Component List

The budget process begins with full inventory of all the major components for which the association is responsible. The determination of whether an expense should be labeled as operational, reserve, or excluded altogether is sometimes subjective. Since this labeling may have a major impact on the financial plans of the association, subjective determinations should be minimized. We suggest the following considerations when labeling an expense.

Operational Expenses

Occur at least annually, no matter how large the expense, and can be budgeted for effectively each year. They are characterized as being reasonably predictable, both in terms of frequency and cost. Operational expenses include all minor expenses, which would not otherwise adversely affect an operational budget from one year to the next. Examples of ***operational expenses*** include:

Utilities:
- Electricity
- Gas
- Water
- Telephone
- Cable TV

Administrative:
- Supplies
- Bank Service Charges
- Dues & Publications
- Licenses, Permits & Fees
- Insurance(s)

Services:
- Landscaping
- Pool Maintenance
- Street Sweeping
- Accounting
- Reserve Study

Repair Expenses:
- Tile Roof Repairs
- Equipment Repairs
- Minor Concrete Repairs
- Operating Contingency

Reserve Expenses

These are major expenses that occur other than annually, and which must be budgeted for in advance in order to ensure the availability of the necessary funds in time for their use. Reserve expenses are reasonably predictable both in terms of frequency and cost. However, they may include significant assets that have an indeterminable but potential liability that may be demonstrated as a likely occurrence. They are expenses that, when incurred, would have a significant effect on the smooth operation of the budgetary process from one year to the next, if they were not reserved for in advance. Examples of reserve expenses include:

- Roof Replacements
- Painting
- Deck Resurfacing
- Fencing Replacement
- Asphalt Seal Coating
- Asphalt Repairs
- Asphalt Overlays
- Equipment Replacement
- Interior Furnishings
- Park/Play Equipment
- Pool/Spa Re-plastering
- Pool Equipment Replacement
- Pool Furniture Replacement
- Tennis Court Resurfacing
- Lighting Replacement
- Insurance(s)
- Reserve Study

Budgeting is Normally Excluded for:

Repairs or replacements of assets which are deemed to have an estimated useful life equal to or exceeding the estimated useful life of the facility or community itself, or exceeding the legal life of the community as defined in an association's governing documents. Examples include the complete replacement of elevators, tile roofs, wiring and plumbing. Also excluded are insignificant expenses that may be covered either by an operating or reserve contingency, or otherwise in a general maintenance fund. Expenses that are necessitated by acts of nature, accidents or other occurrences that are more properly insured for, rather than reserved for, are also excluded.

Financial Analysis

The financial analysis assesses the association's reserve balance or "fund status" (measured in cash or as percent fully funded) to determine a recommendation for the appropriate reserve contribution rate in the future, known as the "funding plan".

Preparing the Reserve Study

Once the reserve assets have been identified and quantified, their respective replacement costs, useful lives and remaining lives must be assigned so that a funding schedule can be constructed. Replacement costs and useful lives can be found in published manuals such as construction estimators, appraisal handbooks, and valuation guides. Remaining lives are calculated from the useful lives and ages of assets and adjusted according to conditions such as design, manufactured quality, usage, exposure to the elements and maintenance history.

By following the recommendations of an effective reserve study, the association should avoid any major shortfalls. However, to remain accurate, the report should be updated on an annual basis to reflect such changes as shifts in economic parameters, additions of phases or assets, or expenditures of reserve funds. The association can assist in simplifying the reserve analysis update process by keeping accurate records of these changes throughout the year.

Funding Methods

From the simplest to the most complex, reserve analysis providers use many different computational processes to calculate reserve requirements. However, there are two basic processes identified as industry standards: the cash flow method and the component method.

The cash flow method develops a reserve-funding plan where contributions to the reserve fund are designed to offset the variable annual expenditures from the reserve fund. Different reserve funding plans are tested against the actual anticipated schedule of reserve expenses until the desired funding goal is achieved. This method sets up a "window" in which all future anticipated replacement costs are computed, based upon the individual lives of the components under consideration. The Trust Reserves Threshold and the Trust Reserves Current Assessment funding models are based upon the cash flow method.

The component method develops a reserve-funding plan where the total contribution is based upon the sum of contributions for individual components. The component method is the more conservative of the two funding options, and assures that the association will achieve and maintain an ideal level of reserve over time. This method also allows for computations on individual components in the analysis. The Trust Reserves Component Funding model is based upon the component methodology.

Funding Strategies

Once an association has established its funding goals, the association can select an appropriate funding plan. There are four basic strategies from which most associations select. It is recommended that associations consult professionals to determine the best strategy or combination of plans that best suit the association's need. Additionally, associations should consult with their financial advisor to determine the tax implications of selecting a particular plan. Further, consultation with the American Institute of Certified Public Accountants (AICPA) for their reporting requirements is advisable. The four funding plans and descriptions of each are detailed below. Associations will have to update their reserve studies more or less frequently depending on the funding strategy they select.

Full Funding---Given that the basis of funding for reserves is to distribute the costs of the replacements over the lives of the components in question, it follows that the ideal level of reserves would be proportionately related to those lives and costs. If an association has a component with an expected estimated useful life of ten years, it would set aside approximately one-tenth of the replacement cost each year. At the end of three years, one would expect three-tenths of the replacement cost to have accumulated, and if so, that component would be "fully-funded." This model is important in that it is a measure of the adequacy of an association's reserves at any one point of time, and is independent of any particular method which may have been used for past funding or may be under consideration for future funding. This formula represents a snapshot in time and is based upon current replacement cost, independent of future inflationary or investment factors:

Fully Funded Reserves = **Age** divided by **Useful Life** the results multiplied by **Current Replacement Cost**

When an association's total accumulated reserves for all components meet this criterion, its reserves are considered "fully-funded."

The Trust Reserves **Threshold Funding Model (Minimum Funding)**. The goal of this funding method is to keep the reserve cash balance above zero. This means that while each individual component may not be fully funded, the reserve balance overall does not drop below zero during the projected period. An association using this funding method must understand that even a minor reduction in a component's remaining useful life can result in a deficit in the reserve cash balance.

The Trust Reserves **Threshold Funding Model.** This method is based upon the cash flow funding concept. The minimum reserve cash balance in threshold funding, however, is set at a predetermined dollar amount (other than $0).

The Trust Reserves **Assessment Funding Model**. This method is also based upon the cash flow funding concept. The initial reserve assessment is set at the association's current fiscal year funding level and a 30-year projection is calculated to illustrate the adequacy of the current funding over time.

The Trust Reserves **Component Funding Model**. This is a straight-line funding model. It distributes the cash reserves to individual reserve components and then calculates what the reserve assessment and interest contribution (minus taxes) should be, again by each reserve component. The current annual assessment is then determined by summing all the individual component assessments, hence the name "Component Funding Model". This is the most conservative funding model. It leads to or maintains the fully funded reserve position. The following details this calculation process.

Component Funding Model Distribution of Accumulated Reserves

The "Distribution of Accumulated Reserves Report" is a "Component Funding Model" calculation. This distribution **does not** apply to the cash flow funding models.

When calculating reserves based upon the component methodology, a beginning reserve balance must be

allocated for each of the individual components considered in the analysis, before the individual calculations can be completed. When this distribution is not available, or of sufficient detail, the following method is suggested for allocating reserves:

The first step the program performs in this process is subtracting, from the total accumulated reserves, any amounts for assets that have predetermined (fixed) reserve balances. The user can "fix" the accumulated reserve balance within the program on the individual asset's detail page. If, by error, these amounts total more than the amount of funds available, then the remaining assets are adjusted accordingly. A provision for a contingency reserve is then deducted by the determined percentage used, and if there are sufficient remaining funds available.

The second step is to identify the ideal level of reserves for each asset. As indicated in the prior section, this is accomplished by evaluating the component's age proportionate to its estimated useful life and current replacement cost. Again, the equation used is as follows:

Fully Funded Reserves = (Age/Useful Life) x Current Replacement Cost

The Reserve Analyst© software program performs the above calculations to the actual month the component was placed-in-service. The program projects that the accumulation of necessary reserves for repairs or replacements will be available on the first day of the fiscal year in which they are scheduled to occur.

The next step the program performs is to arrange all of the assets used in the study in ascending order by remaining life, and alphabetically within each grouping of remaining life items. These assets are then assigned their respective ideal level of reserves until the amount of funds available is depleted, or until all assets are appropriately funded. If any assets are assigned a zero remaining life (scheduled for replacement in the current fiscal year), then the amount assigned equals the current replacement cost and funding begins for the next cycle of replacement. If there are insufficient funds available to accomplish this, then the software automatically adjusts the zero remaining life items to one year, and that asset assumes its new grouping position alphabetically in the final printed report.

If, at the completion of this task, there are additional moneys that have not been distributed, the remaining reserves are then assigned, in ascending order, to a level equal to, but not exceeding, the current replacement cost for each component. If there are sufficient moneys available to fund all assets at their current replacement cost levels, then any excess funds are designated as such and are not factored into any of the report computations. If, at the end of this assignment process there are designated excess funds, they can be used to offset the monthly contribution requirements recommended, or used in any other manner the client may desire.

Assigning the reserves in this manner defers the make-up period for any under-funding over the longest remaining life of all assets under consideration, thereby minimizing the impact of any deficiency. For example, if the report indicates an under funding of $50,000, this under-funding will be assigned to components with the longest remaining lives in order to give more time to "replenish" the account. If the $50,000 under-funding were to be assigned to short remaining life items, the impact would be felt immediately.

If the reserves are under-funded, the monthly contribution requirements, as outlined in this report, can be expected to be higher than normal. In future years, as individual assets are replaced, the funding requirements will return to their normal levels. In the case of a large deficiency, a special assessment may be considered. The program can easily generate revised reports outlining how the monthly contributions would be affected by such an adjustment, or by any other changes that may be under consideration.

Funding Reserves

Three assessment and contribution figures are provided in the report, the "Monthly Reserve Assessment Required", the "Average Net Monthly Interest Earned" contribution and the "Total Monthly Allocation to Reserves." The association should allocate the "Monthly Reserve Assessment Required" amount to reserves each month when the interest earned on the reserves is left in the reserve accounts as part of the contribution. Any interest earned on reserve deposits, must be left in reserves and only amounts set aside for taxes should be removed.

The second alternative is to allocate the "Total Monthly Allocation" to reserves (this is the member assessment plus the anticipated interest earned for the fiscal year). This method assumes that all interest earned will be assigned directly as operating income. This allocation takes into consideration the anticipated interest earned on accumulated reserves regardless of whether or not it is actually earned. When taxes are paid, the amount due will be taken directly from the association's operating accounts as the reserve accounts are allocated only those moneys net of taxes.

Users' Guide to your Reserve Analysis Study

Part II of your Trust Reserves Report contains the reserve analysis study for your association. There are seven types of reports in the study as described below.

Report Summaries

The Report Summary for all funding models lists all of the parameters that were used in calculating the report as well as the summary of your reserve analysis study.

Index Reports

The **Distribution of Accumulated Reserves** report lists all assets in remaining life order. It also identifies the ideal level of reserves that should have accumulated for the association as well as the actual reserves available. This information is valid only for the "Component Funding Model" calculation.

The **Component Listing/Summary** lists all assets by category (i.e. roofing, painting, lighting, etc.) together with their remaining life, current cost, monthly reserve contribution, and net monthly allocation.

Detail Reports

The Detail Report itemizes each asset and lists all measurements, current and future costs, and calculations for that asset. Provisions for percentage replacements, salvage values, and one-time replacements can also be utilized. These reports can be sorted by category or group.

The numerical listings for each asset are enhanced by extensive narrative detailing factors such as design, manufactured quality, usage, exposure to elements and maintenance history.

The Trust Reserves Detail Index is an alphabetical listing of all assets, together with the page number of the asset's detail report, the projected replacement year, and the asset number.

Projections

Thirty-year projections add to the usefulness of your reserve analysis study.

Definitions

Report I.D.
Includes the Report Date (example: November 15, 1992), Account Number (example: 9773), and Version (example: 1.0). Please use this information (displayed on the summary page) when referencing your report.

Budget Year Beginning/Ending
The budgetary year for which the report is prepared. For associations with fiscal years ending December 31st, the monthly contribution figures indicated are for the 12-month period beginning 1/1/20xx and ending 12/31/20xx.

Number of Units and/or Phases
If applicable, the number of units and/or phases included in this version of the report.

Inflation
This figure is used to approximate the future cost to repair or replace each component in the report. The current cost for each component is compounded on an annual basis by the number of remaining years to replacement, and the total is used in calculating the monthly reserve contribution that will be necessary to accumulate the required funds in time for replacement.

Annual Assessment Increase
This represents the percentage rate at which the association will increase its assessment to reserves at the end of each year. For example, in order to accumulate $10,000 in 10 years, you could set aside $1,000 per year. As an alternative, you could set aside $795 the first year and increase that amount by 5% each year until the year of replacement. In either case you arrive at the same amount. The idea is that you start setting aside a lower amount and increase that number each year in accordance with the planned percentage. Ideally this figure should be equal to the rate of inflation. It can, however, be used to aide those associations that have not set aside appropriate reserves in the past, by making the initial year's allocation less formidable.

Investment Yield Before Taxes

The average interest rate anticipated by the association based upon its current investment practices.

Taxes on Interest Yield
The estimated percentage of interest income that will be set aside to pay income taxes on the interest earned.

Projected Reserve Balance
The anticipated reserve balance on the first day of the fiscal year for which this report has been prepared. This is based upon information provided and not audited.

Percent Fully Funded
The ratio, at the beginning of the fiscal year, of the actual (or projected) reserve balance to the calculated fully funded balance, expressed as a percentage.

Phase Increment Detail and/or Age
Comments regarding aging of the components on the basis of construction date or date of acceptance by the association.

Monthly Assessment
The assessment to reserves required by the association each month.

Interest Contribution (After Taxes)
The interest that should be earned on the reserves, net of taxes, based upon their beginning reserve balance and monthly contributions for one year. This figure is averaged for budgeting purposes.

Total Monthly Allocation
The sum of the monthly assessment and interest contribution figures.

Group and Category
The report may be prepared and sorted either by group (location, building, phase, etc.) or by category (roofing, painting, etc.). The standard report printing format is by category.

Percentage of Replacement or Repairs
In some cases, an asset may not be replaced in its entirety or the cost may be shared with a second party. Examples are budgeting for a percentage of replacement of streets over a period of time, or sharing the expense to replace a common wall with a neighboring party.

Placed-In-Service Date
The month and year that the asset was placed-in-service. This may be the construction date, the first escrow closure date in a given phase, or the date of the last servicing or replacement.

Estimated Useful Life
The estimated useful life of an asset based upon industry standards, manufacturer specifications, visual inspection, location, usage, association standards and prior history. All of these factors are taken into consideration when tailoring the estimated useful life to the particular asset. For example, the carpeting in a hallway or elevator (a heavy traffic area) will not have the same life as the identical carpeting in a seldom-used meeting room or office.

Adjustment to Useful Life
Once the useful life is determined, it may be adjusted, up or down, by this separate figure for the current cycle of replacement. This will allow for a current period adjustment without affecting the estimated replacement cycles for future replacements.

Estimated Remaining Life
This calculation is completed internally based upon the report's fiscal year date and the date the asset

was placed-in-service.

Replacement Year
The year that the asset is scheduled to be replaced. The appropriate funds will be available by the first day of the fiscal year for which replacement is anticipated.

Annual Fixed Reserves
An optional figure which, if used, will override the normal process of allocating reserves to each asset.

Fixed Assessment
An optional figure which, if used, will override all calculations and set the assessment at this amount. This assessment can be set for monthly, quarterly or annually as necessary.

Salvage Value
The salvage value of the asset at the time of replacement, if applicable.

One-Time Replacement
Notation if the asset is to be replaced on a one-time basis.

Current Replacement Cost
The estimated replacement cost effective at the beginning of the fiscal year for which the report is being prepared

Future Replacement Cost
The estimated cost to repair or replace the asset at the end of its estimated useful life based upon the current replacement cost and inflation.

Component Inventory
The task of selecting and qualifying reserve components. This task can be accomplished through on-site visual, review of association design and organizational documents, a review of established association precedents, and discussion with appropriate association representative(s).

A Multi-Purpose Tool

Your Trust Reserves Report is an important part of your association's budgetary process. Following its recommendations should ensure the association's smooth budgetary transitions from one fiscal year to the next, and either decrease or eliminate the need for "special assessments".

In addition, your Trust Reserves reserve study serves a variety of useful purposes:

- Following the recommendations of a reserve study performed by a professional consultant can protect the Board of Directors in a community from personal liability concerning reserve components and reserve funding.
- A reserve analysis study is required by your accountant during the preparation of the association's annual audit.
- The Trust Reserves reserve study is often requested by lending institutions during the process of loan applications, both for the community and, in many cases, the individual owners.
- Your Trust Reserves Report is also a detailed inventory of the association's major assets and serves as a management tool for scheduling, coordinating and planning future repairs and replacements.
- Your Trust Reserves Report is a tool that can assist the Board in fulfilling its legal and fiduciary obligations for maintaining the community in a state of good repair. If a community is operating on a special assessment basis, it cannot guarantee that an assessment, when needed, will be passed. Therefore, it cannot guarantee its ability to perform the required repairs or replacements to those major components for which the association is obligated.
- Since the Trust Reserves reserve analysis study includes measurements and cost estimates of the client's assets, the detail reports may be used to evaluate the accuracy and price of contractor bids when assets are due to be repaired or replaced.
- The Trust Reserves reserve study is an annual disclosure to the membership concerning the financial condition of the association, and may be used as a "consumers' guide" by prospective purchasers.
- The Trust Reserves Owners' Summary meets the disclosure requirements of the California Civil Code and also the recently adopted ECHO standards.
- Your Trust Reserves Report provides a record of the time, cost, and quantities of past reserve replacements. At times the association's management company and board of directors are transitory which may result in the loss of these important records.

Barrington Heights Wellington Place
TR Spread Sheet

Description	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Asphalt Overlay	*Unfunded*									
Asphalt Sealcoat & Repairs			1,054							1,296
Concrete Maintenance										2,610
Underground Lines										
Year Total:			**1,054**							**3,906**

Barrington Heights Wellington Place
TR Spread Sheet

Description	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Asphalt Overlay	*Unfunded*									
Asphalt Sealcoat & Repairs							1,594			
Concrete Maintenance										
Underground Lines										
Year Total:							**1,594**			

Barrington Heights Wellington Place
TR Spread Sheet

Description	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Asphalt Overlay	*Unfunded*									
Asphalt Sealcoat & Repairs				1,960						
Concrete Maintenance					4,066					
Underground Lines							7,548			
Year Total:				**1,960**	**4,066**		**7,548**			