



SUNSHINE ACRES PROPERTY OWNERS
ASSOCIATION RESERVE STUDY
2013-2014

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INTRODUCTION

WHY A STUDY:

In January 1, 2012 a new Revised Code of Washington (RCW) was enacted by Washington State (RCW 64.38) regarding Reserve Studies for Homeowners Associations (copy in the Appendix). In RCW 64.38.065 ((1) encourages an establishment of a reserve account for major maintenance, repair and replacement of common elements, including limited common elements that will require major maintenance, repair or replacement within thirty (30) years. They suggest per RCW 64.38.65 (2) that this reserve study be prepared and updated according to their directives and/or the association governing documents (By-Laws) and that the initial report be done upon a visual site inspection by professionals. In RCW 64.38.065 (3) they suggest that it be done annually and that at least every three years an updated reserve study be prepared upon a visual inspection (unless it is an unreasonable hardship to do so). In RCW 64.38.065 (4) the State empowers the Board of the Directors to exercise reasonable discretion in making the decisions including whether a reserve study will be prepared or updated and whether the assistance of a reserve study professional will be utilized and in RCW 64.38.75, how and when the funds will be used. In RCW64.38.080 (1), however, if it has been three (3) years since the last study and 35% of the owners may ask in writing to have the funds included in a budget for a study to be prepared by the end of the budget year. (Once again, it is reiterated that an owner's duty to pay for common expenses is not excused because of an Association's failure to comply with this section or the chapter and the ratified budget is not invalidated because the association fails to comply with this request. This is so noted in other sections of the RCW's and is the basis for any delinquent member to not be allowed to withhold dues that pay these common costs).

IMPORTANT: RCW64.38.085 – Reserve account and study – Liability does not allow monetary damages or any other liability to be awarded against or imposed upon the association, the officers or the board of directors of the association, or those persons who may have provided advice or assistance to the association or its officers or director, for failure to: Establish a reserve account; have a current reserve study prepared or updated in accordance with the requirements of this chapter; or make the reserve disclosures in accordance with this chapter.

With the understanding that this is important to do for future owners and to give the membership a more detailed accounting for what we are "saving" our unused dues for, the following is presented to the Board.

EXECUTIVE STATEMENT

It is important for Sunshine Acres Property Owners Association to account for funds for such major repairs that might be needed to the common properties. The importance of having a reserve fund cannot be overstated. Over the years many members have wondered why we have so much money in the bank and the answer has always been “because we feel that we need to keep funds for major repairs on hand” in “reserve”. This study will clearly show how much we should be reserving for these repairs, how long we should plan for this and answer the question about “how much is enough”.

In this study we acknowledge that funds for the repair and maintenance of the Retention Pond equipment has been set aside at the amount of \$5,000 and that has been reached and set aside in a “reserve” line of the financial reports. Any repairs to the Pond itself would have to come out of our annual budget for Repairs & Maintenance (R&M) for Common Property line item. Should the costs be more than budgeted, a vote of the membership would be needed. We could put forth to the membership at that time to use funds that we have set aside for the Mussel Beach Road (MBR) repairs to cover the costs or take it from the Operating Account depending on the amount of the costs.

Mussel Beach Road has had an account set up for the original road construction and the funds remain on deposit in that account. Any repairs that were needed that exceeded the annual allowance have been paid for from that account and there is a reserve set up on an annual basis that will be discussed later in the report.

Additionally, it is believed that a Capital Reserve Fund should be set up for any legal or emergency purpose such as issues that might occur that would not be covered and adjudicated by our insurance company or any emergency due to weather or unforeseen issues.

This Study was not done with the assistance of any reserve study professional.

DISCLOSURE: This reserve study should be reviewed carefully. It may not include all common and limited common element components that will require major maintenance, repair or replacement in future years, and may not include regular contributions to a reserve account for the cost of such maintenance, repair or replacement. The failure to include a component in a reserve study or to provide contributions to a reserve account for a component, may, under some circumstances, require you to pay on demand as a special assessment your share of common expenses for the cost of major maintenance, repair or replacement of a reserve component.

MUSSEL BEACH ROAD RESERVE STUDY

The care of Mussel Beach Road is the main financial obligation for the Association. With the volunteer workers and minimal repairs needed up to this point, we have been able to accumulate in the Operating Account a “reserve” amount of money that can be used for repairs if they occur or if our volunteer force should be smaller in the future. With that in mind and with the understanding that the current members must keep the road in good repair and provide for the repair and maintenance for future owners this study used the following rules for establishment of the fund:

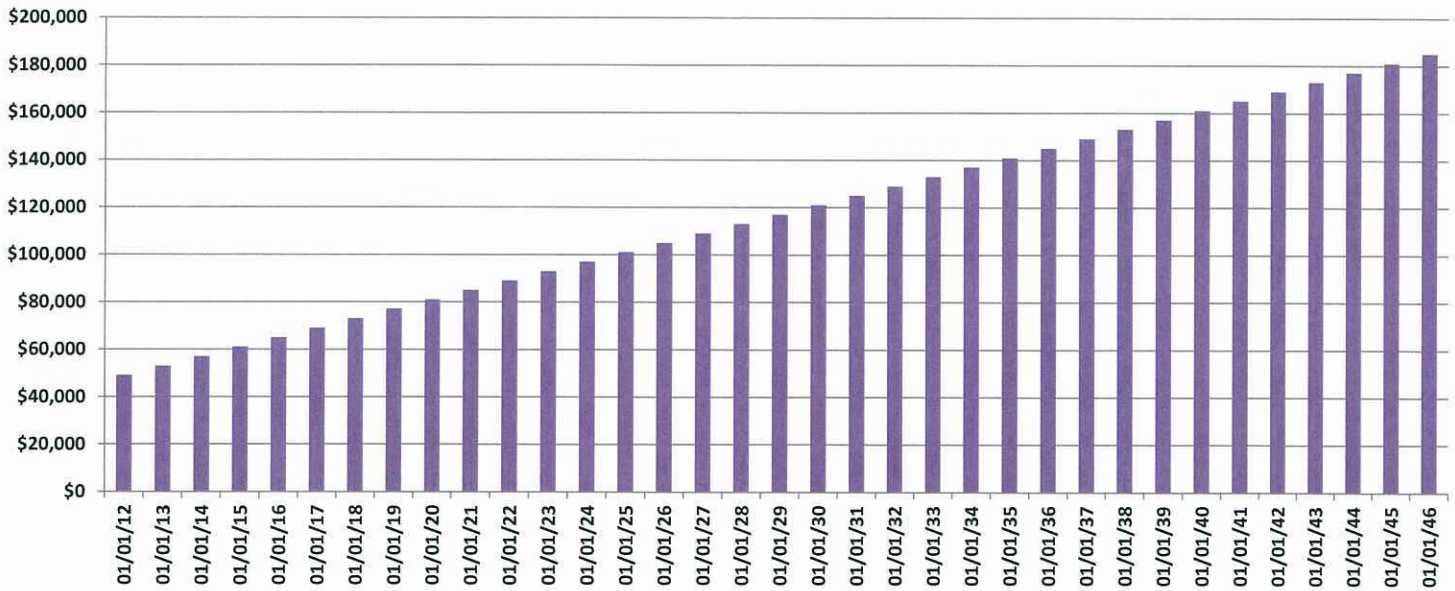
1. The Capital Reserve Fund for Mussel Beach Road took the original cost of the road construction and then took into consideration the IRS depreciation “life” of such a construction project. Allowing for the fact that the road should be kept up through regular maintenance and not need to be totally replaced again, we were able to lower the cost and then divide by the number of years left on the “life” of the project.
2. This means that the “life” of the property was found to be 40 years.
3. The cost of the original project was \$218,140.99 and the amount proposed for the Reserve Fund was lowered to \$185,000 since SAPOA should not have to actually excavate the road again.
4. The amount needed to be put aside, therefore, on an annual basis would need to be \$4,000.
5. An initial transfer from Operating Account to MBR account would, therefore, need to be \$26,727 to account for the 6 years into the life of the property deposits that should have been made (\$24,000) and to round out amount needed to hit the goal within the time period allotted (\$2,727).

The attached chart will show how the fund will meet its goal and when that goal would be met if there were no major repairs needed. It is recommended that this study be done again in 4 years and every 5 years thereafter to monitor the progress and make adjustments as needed.

SUNSHINE ACRES PROPERTY OWNERS MBR RESERVE STUDY

Reserve Study for MBR Maintenance			Cost Per member (404)
<i>**** Does not include Interest to be Earned or changes in number of owners****</i>			
Original Cost of Road		\$ 218,141	
PROPOSED RESERVE	\$ 185,000	84.81%	of original Cost
RESERVE LIFE - PER IRS Depreciation Chart	40		
Years since completion	6		
Reserves currently on Deposit (Not including Lease Reserve)	\$ 22,273	From original construction	
Proposed Transfer from Operating Account	\$ 24,000	6 years reserves	
Additional Transfer to meet goal	\$ 2,727		
Balance to be covered 34 future years		\$ 138,728	
Annual Required Reserve Allowance Currently	\$ 500		\$ 1.24
Proposed Change to Reserves Annually	\$ 4,000.00		\$ 9.90
PROJECTED Reserves in 44 years		\$ 185,000	

SAPOA MBR MAINTENANCE RESERVE STUDY PROPOSAL



EMERGENCY/LEGAL DEFENSE FUND

The Emergency/Legal Defense Reserve was set to be \$50,000. Since most issues would be resolved, per the Association's By-Laws, through Binding Arbitration, we felt that this would be enough should there be a need for such costs. In addition, most cases of liability would be covered by our insurance that costs for any litigation would be through the legal staff of the insurance company.

If there were any weather related emergencies, the association would also have access to insurance coverage and likely government funding for help but there should be funds available that can be used for discretionary use for things that need immediate attention and to help those that are in need including but not limited to our First Responders and CERT teams.

These funds should remain in the Operating account so they will be easily accessible but should be noted on financials as "Reserved Funds" to account to the membership how much we have set aside for this item and can end the amount budgeted when we achieve our goal.

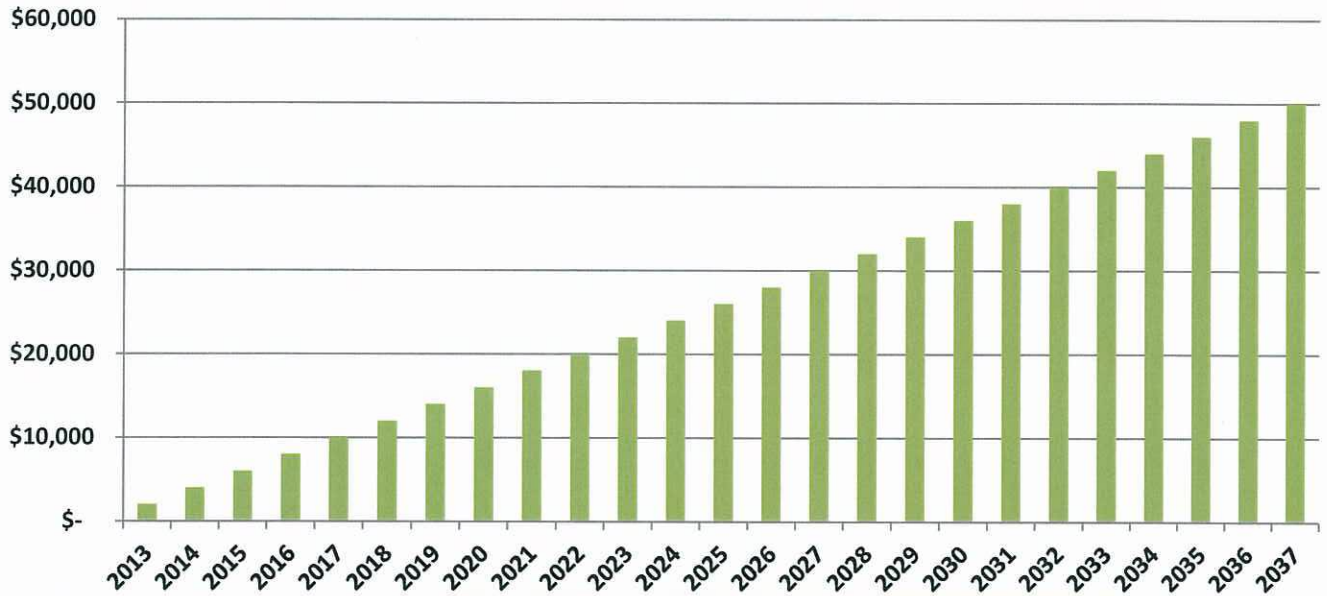
An initial transfer to the "Reserved Fund" on the Balance Sheet account would be made at the end of the Fiscal year each year (first to occur on the 1st of September, 2013) in the amount of \$4,000 and each year following for the term of 25 years.

The attached chart will show how the fund will meet its goal and when that goal would be met if there were no major repairs needed. It is recommended that this study be done again in 4 years and every 5 years thereafter to monitor the progress and make adjustments as needed.

SUNSHINE ACRES PROPERTY OWNERS LEGAL RESERVE STUDY

Reserve Study for Legal Defense			
<i>**** Does not include Interest to be Earned or changes in number of owners****</i>			Cost Per member (404)
Projected Legal Costs not covered by Insurance		\$ 50,000	
Reserves Currently on Deposit		\$ -	
Proposed Transfer from Operating Account		\$ -	
Balance to be covered in Future Years		\$ 50,000	\$ 123.76
Annual Reserve Allowance		\$ 2,000	\$ 4.95
Years to full funding		25	

SAPOA EMERGENCY/LEGAL RESERVE STUDY PROPOSAL



CONCLUSION

It is the belief that from this study we can achieve these goals and can do so without having to increase the budget (and therefore not increase the current dues). It means changing some budgeted line amounts and adding these line items as well.

The attached Proposed Budget for 2013-2014 (Appendix B) shows these line items and would be presented with this study to the membership at a General Meeting and with the proposed budget ballot.

APPENDIX – A

RCW 64.38.065

Reserve account and study.

(1) An association is encouraged to establish a reserve account with a financial institution to fund major maintenance, repair, and replacement of common elements, including limited common elements that will require major maintenance, repair, or replacement within thirty years. If the association establishes a reserve account, the account must be in the name of the association. The board of directors is responsible for administering the reserve account.

(2) Unless doing so would impose an unreasonable hardship, an association with significant assets shall prepare and update a reserve study, in accordance with the association's governing documents and this chapter. The initial reserve study must be based upon a visual site inspection conducted by a reserve study professional.

(3) Unless doing so would impose an unreasonable hardship, the association shall update the reserve study annually. At least every three years, an updated reserve study must be prepared and based upon a visual site inspection conducted by a reserve study professional.

(4) The decisions relating to the preparation and updating of a reserve study must be made by the board of directors in the exercise of the reasonable discretion of the board. The decisions must include whether a reserve study will be prepared or updated, and whether the assistance of a reserve study professional will be utilized.

[2011 c 189 § 9.]

1) A reserve study as described in RCW [64.38.065](#) is supplemental to the association's operating and maintenance budget. In preparing a reserve study, the association shall estimate the anticipated major maintenance, repair, and replacement costs, whose infrequent and significant nature make them impractical to be included in an annual budget.

(2) A reserve study must include:

(a) A reserve component list, including any reserve component that would cost more than one percent of the annual budget of the association, not including the reserve account, for major maintenance, repair, or replacement. If one of these reserve components is not included in the reserve study, the study should provide commentary explaining the basis for its exclusion. The study must also include quantities and estimates for the useful life of each reserve component, remaining useful life of each reserve component, and current major maintenance, repair, or replacement cost for each reserve component;

(b) The date of the study, and a statement that the study meets the requirements of this section;

(c) The following level of reserve study performed:

(i) Level I: Full reserve study funding analysis and plan;

(ii) Level II: Update with visual site inspection; or

(iii) Level III: Update with no visual site inspection;

(d) The association's reserve account balance;

(e) The percentage of the fully funded balance that the reserve account is funded;

(f) Special assessments already implemented or planned;

(g) Interest and inflation assumptions;

(h) Current reserve account contribution rates for a full funding plan and baseline funding plan;

(i) A recommended reserve account contribution rate, a contribution rate for a full funding plan to achieve one hundred percent fully funded reserves by the end of the thirty-year study period, a baseline funding plan

to maintain the reserve balance above zero throughout the thirty-year study period without special assessments, and a contribution rate recommended by the reserve study professional;

(j) A projected reserve account balance for thirty years and a funding plan to pay for projected costs from that reserve account balance without reliance on future unplanned special assessments; and

(k) A statement on whether the reserve study was prepared with the assistance of a reserve study professional.

(3) A reserve study must also include the following disclosure: "This reserve study should be reviewed carefully. It may not include all common and limited common element components that will require major maintenance, repair, or replacement in future years, and may not include regular contributions to a reserve account for the cost of such maintenance, repair, or replacement. The failure to include a component in a reserve study, or to provide contributions to a reserve account for a component, may, under some circumstances, require you to pay on demand as a special assessment your share of common expenses for the cost of major maintenance, repair, or replacement of a reserve component."

RCW 64.38.075

Reserve account — Withdrawals.

An association may withdraw funds from its reserve account to pay for unforeseen or unbudgeted costs that are unrelated to maintenance, repair, or replacement of the reserve components. The board of directors shall record any such withdrawal in the minute books of the association, cause notice of any such withdrawal to be hand delivered or sent prepaid by first-class United States mail to the mailing address of each owner or to any other mailing address designated in writing by the owner, and adopt a repayment schedule not to exceed twenty-four months unless it determines that repayment within twenty-four months would impose an unreasonable burden on the owners. Payment for major maintenance, repair, or replacement of the reserve components out of cycle with the reserve study projections or not included in the reserve study may be made from the reserve account without meeting the notification or repayment requirements under this section.

RCW 64.38.080

Reserve study — Demand for preparation and inclusion in budget.

(1) When more than three years have passed since the date of the last reserve study prepared by a reserve study professional, the owners to which at least thirty-five percent of the votes are allocated may demand, in writing, to the association that the cost of a reserve study be included in the next budget and that the study be prepared by the end of that budget year. The written demand must refer to this section. The board of directors shall, upon receipt of the written demand, provide the owners who make the demand reasonable assurance that the board will include a reserve study in the next budget and, if the budget is not rejected by a majority of the owners, will arrange for the completion of a reserve study.

(2) If a written demand under this section is made and a reserve study is not timely prepared, a court may order specific performance and award reasonable attorneys' fees to the prevailing party in any legal action brought to enforce this section. An association may assert unreasonable hardship as an affirmative defense in any action brought against it under this section. Without limiting this affirmative defense, an unreasonable hardship exists where the cost of preparing a reserve study would exceed five percent of the association's annual budget.

(3) An owner's duty to pay for common expenses is not excused because of the association's failure to comply with this section or this chapter. A budget ratified by the owners is not invalidated because of the association's failure to comply with this section or this chapter.

RCW 64.38.085

Reserve account and study — Liability.

Monetary damages or any other liability may not be awarded against or imposed upon the association, the officers or board of directors of the association, or those persons who may have provided advice or assistance to the association or its officers or directors, for failure to: Establish a reserve account; have a current reserve study prepared or updated in accordance with the requirements of this chapter; or make the reserve disclosures in accordance with this chapter.

RCW 64.38.090

Reserve study — Exemptions.

An association is not required to follow the reserve study requirements under RCW [64.38.025](#) and RCW [64.38.065](#) through [64.38.085](#) if the cost of the reserve study exceeds five percent of the association's annual budget, the association does not have significant assets, or there are ten or fewer homes in the association.

Notes:

Effective date -- 2011 c 189: "This act takes effect January 1, 2012." [2011 c 189 § 15.]

APPENDIX - B

SUNSHINE ACRES PROPERTY OWNERS ASSOCIATION

BUDGET PROPOSAL		
CATEGORY	BUDGET	Dues Allocation to Budgeted Expenses per Owner
Member Communication		
(includes Newsletter, Ballots, meeting room and supplies, Web site costs, postage, post office box fee and office supply costs)	\$ 3,480.00	\$ 8.61
Storage Facility	\$ 300.00	\$ 0.74
Professional Services		
Insurance	\$ 6,300.00	\$ 15.59
Bookkeeping/Record Keeping	\$ 2,100.00	\$ 5.20
Taxes, filing fees and assessments	\$ 300.00	\$ 0.74
UNREIMBURSED Collection Costs	\$ 200.00	\$ 0.50
Retention Pond O&M Restricted Funds Allowance	<i>** Reserved Funds Maximum of \$5,000 has been reached</i>	
Common Properties Maintenance Fund	\$ 1,000.00	\$ 2.48
Plat Architectural Supervision	\$ 270.00	\$ 0.67
Emergency Fund Expenses	\$ 250.00	\$ 0.62
MBR RESERVE FUND	\$ 4,000.00	\$ 9.90
EMERGENCY/LEGAL RESERVE FUND	\$ 2,000.00	\$ 4.95
TOTALS	\$ 20,200.00	\$ 50.00

Income for Budget based on 404 Members	\$ 20,200.00
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