



SCT RESERVE CONSULTANTS, INC.

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March 2, 2015

Job 1997-000-18 L1

Perfect World Homeowners Association
c/o At Peace With The World Management Company
P.O. Box 890129
Temecula, CA 92589-0129
Attn: Ms. Spring Sunshine

Subject: Year 2016 Level I Reserve Study

Dear Ms. Sunshine,


SCT Reserve Consultants, Inc. is pleased to submit this **2016 Level I Reserve Study**.

There are two summary sections (starting at pages 4 and 5) that are required to be included in the Association's year-end mailing to the membership. They are the **"Reserve Summary"** and the **"Assessment and Reserve Funding Disclosure Summary"**. They are to be mailed 30 to 90 days prior to the Association's year-end. These pages will satisfy the current California Civil Code requirements for homeowner disclosure.

The 'Year 2016 Reserve Budget' table of this report is AICPA approved; this may be included in the mailing but is generally not required. Check with legal counsel for greater clarification.

We appreciate the opportunity to provide our professional services. Should you have any need for clarification please contact me at (951) 296-3520.

Sincerely,



Michael C. Graves, R.S. #00039



YEAR 2016
LEVEL I
RESERVE STUDY
(SITE VISIT FULL REPORT)
FOR
PERFECT WORLD
HOMEOWNERS ASSOCIATION
VERSION 1

SCT RESERVE CONSULTANTS, INC.
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TEMECULA, CALIFORNIA 92589-0129
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Reserve Summary

(As required by California Civil Code Section 5565)

PERFECT WORLD HOMEOWNERS ASSOCIATION

SCT Reserve Consultants, Inc. is pleased to provide this Level I Reserve Study (Site Visit Full Report). In order to comply with the California Civil Code, specifically the Davis-Stirling Common Interest Development Act, Section 5565, we are providing the following information to the Homeowners within the PERFECT WORLD HOMEOWNERS ASSOCIATION.

The following study has been prepared with several assumed factors taken into account: a 3.00% inflation rate; a 1.00% return on investment (interest earned); taxes on interest earned is paid for through the operating fund; an estimated remaining life of each reserve component; and an estimated current replacement cost of each reserve component.

As of December 31, 2015, the estimated ending reserve fund balance is \$1,000,000 and the estimated current replacement cost is \$1,989,400 for the portfolio of reserve components. The projected future replacement cost of the portfolio is \$2,776,456, calculated at an annually compounded inflation rate of 3.00%. The Association's level of funding which is based upon the estimated ending reserve fund balance divided by the reserve components' fully funded amount is 92.27%. This is referred to as Percent Funded. The Association would be 100.00% funded if there were \$1,083,773.00 in the reserve fund.

The current deficiency (or surplus if the number is in parenthesis) in reserve funding expressed on a per unit basis is \$837.73. This is calculated by subtracting the ending balance (\$1,000,000) from the 100% funded figure (\$1,083,773.00), then divided by the number of ownership interests (100). There is currently no requirement to be fully funded.

Our original analysis of the cash flow for this association indicated future inadequate funding if there were no annual increases to the Reserves. It is our understanding the Board of Directors will allocate a total of \$10,000 starting in 2016 (\$100.00 per unit per month for each of the 100 ownership interests) per month towards the reserve fund. To offset the future cash shortfall we recommend and have included an increase of 2.97% starting in 2017 for 29 years. The increase is scheduled to take effect in the year 2017. The Board of Directors may change the amount; however, it will impact the level of funding on reserves. These numbers, by themselves, are not a clear indicator of financial strength and could indicate underfunding, overfunding, or adequate funding.

The following table represents additionally required information pursuant to the Davis-Stirling Common Interest Development Act, Section 5565.

Fiscal Year: January 1, 2016 through December 31, 2016

Category	Estimated Remaining Useful Lives	Estimated Current Replacement Cost	Fund Balance on Dec 31, 2015	Estimated Reserve Allocation	Estimated Special Assessment Allocation	Estimated Interest
Access System	1 to 4	\$22,400	\$15,512	\$1,861.42	\$0.00	\$156.06
Asphalt	1 to 21	\$532,000	\$234,864	\$28,183.67	\$0.00	\$2,362.87
Buildings, Decks	0 to 4	\$108,000	\$91,163	\$10,939.53	\$0.00	\$917.15
Buildings, Roof	10 to 13	\$884,000	\$442,077	\$53,049.27	\$0.00	\$4,447.55
Electrical/Lights	6 to 9	\$37,800	\$22,245	\$2,669.35	\$0.00	\$223.79
Fence & Gates	4 to 5	\$37,600	\$25,874	\$3,104.87	\$0.00	\$260.31
Irrigation	2 to 11	\$83,600	\$58,200	\$6,983.95	\$0.00	\$585.52
Landscape	2 to 23	\$32,400	\$4,331	\$519.70	\$0.00	\$43.57
Paint	0 to 6	\$213,000	\$87,606	\$10,512.66	\$0.00	\$881.36
Pool & Spa	2 to 9	\$38,600	\$18,130	\$2,175.57	\$0.00	\$182.40
Totals:		\$1,989,400	\$1,000,000	\$120,000	\$0	\$10,061

The complete reserve study is available by request from the Association.



Assessment and Reserve Funding Disclosure Summary For the Fiscal Year Ending December 31, 2016

(As illustrated by California Civil Code Section 5570(a))

(1) The regular assessment per ownership interest is **\$500.00** per month, of which approximately **\$100.00** is allocated to reserves.

*Note: If assessments vary by the size or type of ownership interest, the assessment applicable to this ownership interest may be found on the following page of the attached summary. **NOT APPLICABLE***

(2) Additional regular or special assessments that have already been scheduled to be imposed or charged, regardless of the purpose, if they have been approved by the board and/or members: **SEE ANSWER BELOW TO QUESTION #4 WHICH SUGGESTS THERE WILL BE INCREASES IN REGULAR ASSESSMENTS FOR RESERVE FUNDING.**

Date assessment will be due:	Amount per ownership interest per month or year:	Purpose of the assessment:
<i>(Intentionally left blank)</i>	<i>(Intentionally left blank)</i>	<i>(Intentionally left blank)</i>

*Note: If assessments vary by the size or type of ownership interest, the assessment applicable to this ownership interest may be found on the following page of the attached summary. **NOT APPLICABLE***

(3) Based upon the most recent reserve study and other information available to the board of directors, will currently projected reserve account balances be sufficient at the end of each year to meet the association's obligation for repair and/or replacement of major components during the next 30 years?

Yes X No X

Yes, if the Association follows the recommended future reserve contribution increases as outlined in the reserve study and disclosed in the table of question (4) with consideration to the note below*.

No, if the Association does not follow the recommended future reserve contribution increases as outlined in the reserve study and disclosed in the table of question (4) with consideration to the note below*.

**Note: The information contained within the reserve study includes estimates of replacement value and life expectancies of the components and includes assumptions regarding future events based on information provided by and supplied to the Association's Board of Directors and/or management. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to the data of this disclosure summary. Therefore, the actual replacement cost and remaining life may vary from the reserve study and the variation may be significant. Additionally, inflation and other economic events may impact the reserve study, particularly over a thirty (30) year period of time which could impact the accuracy of the reserve study and the funds available to meet the association's obligation for repair and/or replacement of major components during the next thirty (30) years. Furthermore, the occurrence of vandalism, severe weather conditions, earthquakes, floods or other acts of God cannot be accounted for and are excluded when assessing life expectancy of the components. The reserve study only includes items that the Association has a clear and express responsibility to maintain, pursuant to the Association's CC&Rs.*

(4) If the answer to (3) is No, what additional assessments or other contributions to reserves would be necessary to ensure that sufficient reserve funds will be available each year during the next 30 years that have not yet been approved by the Board or the members?

Approximate date assessment(s) will be due:	Amount per ownership interest per month:
2.97% starting in 2017 for 29 years	(Current amount) X (the increases)

(5) All major components are included in the reserve study and are included in its calculations.

(6) Based on the method of calculation in paragraph (4) of subdivision (b) of Section 5550, the estimated amount required in the reserve fund at the end of the current fiscal year is **\$1,135,882.33**, as of **December 31, 2016**, based in whole or in part on the last reserve study or update prepared by **SCT RESERVE CONSULTANTS, INC.** The projected reserve fund cash balance at the end of the current fiscal year is **\$1,069,060.57**, resulting in reserves being **94.12%** percent funded at this date. If an alternate, but generally accepted, method of calculation is also used, the required amount is **\$61,000**. (See explanation below).

Explanation: *Cash Flow Methodology - a method of developing 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 anticipated schedule of reserve expenses until the desired funding goal is achieved.*



Assessment and Reserve Funding Disclosure Summary For the Fiscal Year Ending December 31, 2016

(As illustrated by California Civil Code Section 5570(a))

(continued)

7) **See below: 30-Year Reserve Funding Plan Table...** Based on the method of calculation in paragraph (4) of subdivision (b) of Section 5550 of the Civil Code, the estimated amount required in the reserve fund at the end of each of the next five budget years is \$(see "100% Funded" column below), and the projected reserve fund cash balance in each of those years, taking into account only assessments already approved and other known revenues, is \$(see "Cash Flow Balance with Funding Plan" column below), leaving the reserve at (see "Percent Funded" column below) percent funding. If the reserve funding plan approved by the association is implemented, the projected reserve fund cash balance in each of those years will be \$(see "Cash Flow Balance with Funding Plan" column below), leaving the reserve at (see "Percent Funded" column below) percent funding. Note: The financial representations set forth in this summary are based on the best estimates of the preparer at that time. The estimates are subject to change. At the time this summary was prepared, the assumed long-term before-tax interest rate earned on reserve funds was **1.00%** per year, and the assumed long-term inflation rate to be applied to major component repair and replacement costs was **3.00%** per year.

30-Year Reserve Funding Plan Table

Fiscal Year: January 01, 2016 - December 31, 2016							
Year	End of Year			Revenue			Expenditures
	100% Funded	Cash Flow (Balance with Funding Plan)	Percent Funded (EOY)	Contribution, Interest, Spec Assess	Contribution Unit/Month	Contribution %Change	Components, Taxes, Deferred Exp
2015	\$1,083,773	\$1,000,000	92.27%				
2016	\$1,135,882	\$1,069,061	94.12%	\$130,061	\$100.00		\$61,000
2017	\$1,212,244	\$1,165,507	96.14%	\$134,557	\$102.97	2.97%	\$38,110
2018	\$1,207,937	\$1,177,840	97.51%	\$138,367	\$106.03	2.97%	\$126,035
2019	\$1,314,274	\$1,312,295	99.85%	\$143,416	\$109.18	2.97%	\$8,960
2020	\$1,343,603	\$1,363,333	101.47%	\$147,832	\$112.42	2.97%	\$96,794
2021	\$1,266,006	\$1,289,572	101.86%	\$151,138	\$115.76	2.97%	\$224,899
2022	\$1,138,661	\$1,148,029	100.82%	\$153,865	\$119.20	2.97%	\$295,409
2023	\$1,257,840	\$1,301,873	103.50%	\$159,501	\$122.74	2.97%	\$5,657
2024	\$1,366,931	\$1,450,232	106.09%	\$165,334	\$126.38	2.97%	\$16,975
2025	\$1,418,966	\$1,531,115	107.90%	\$170,651	\$130.14	2.97%	\$89,768
2026	\$1,391,684	\$1,510,817	108.56%	\$175,108	\$134.00	2.97%	\$195,405
2027	\$1,504,969	\$1,669,482	110.93%	\$181,366	\$137.98	2.97%	\$22,701
2028	\$1,225,625	\$1,263,095	103.06%	\$182,453	\$142.08	2.97%	\$588,839
2029	\$799,169	\$617,480	77.27%	\$181,169	\$146.30	2.97%	\$826,784
2030	\$677,878	\$462,670	68.25%	\$184,615	\$150.64	2.97%	\$339,425
2031	\$823,293	\$640,235	77.77%	\$191,587	\$155.12	2.97%	\$14,022
2032	\$963,950	\$821,476	85.22%	\$198,892	\$159.72	2.97%	\$17,652
2033	\$1,069,466	\$968,005	90.51%	\$206,031	\$164.47	2.97%	\$59,503
2034	\$1,104,435	\$1,027,622	93.05%	\$212,496	\$169.35	2.97%	\$152,878
2035	\$1,265,214	\$1,246,484	98.52%	\$220,615	\$174.38	2.97%	\$1,754
2036	\$1,399,937	\$1,440,185	102.88%	\$228,740	\$179.56	2.97%	\$35,039
2037	\$1,268,144	\$1,146,109	90.38%	\$232,387	\$184.89	2.97%	\$526,463
2038	\$1,111,068	\$964,340	86.79%	\$237,091	\$190.39	2.97%	\$418,860
2039	\$1,254,151	\$1,131,550	90.22%	\$245,364	\$196.04	2.97%	\$78,154
2040	\$1,352,071	\$1,230,388	91.00%	\$253,331	\$201.86	2.97%	\$154,492
2041	\$1,437,316	\$1,347,569	93.76%	\$261,651	\$207.86	2.97%	\$144,471
2042	\$1,400,064	\$1,295,243	92.51%	\$268,575	\$214.03	2.97%	\$320,901
2043	\$1,548,315	\$1,459,671	94.27%	\$277,714	\$220.39	2.97%	\$113,286
2044	\$1,675,851	\$1,607,115	95.90%	\$287,007	\$226.93	2.97%	\$139,564
2045	\$1,809,559	\$1,819,422	100.55%	\$297,144	\$233.67	2.97%	\$84,836
30-Year Sum:				\$6,018,058			\$5,198,637



Summary

In accordance with our proposal, 1997-000, SCT Reserve Consultants, Inc. is pleased to provide this **Level I Reserve Study Site Visit Full Report for PERFECT WORLD HOMEOWNERS ASSOCIATION**. Our study was performed in accordance with the Davis-Stirling Common Interest Development Act, specifically §5550, of the California Civil Code. This report included a site inspection on June 7, 2015. This *condominium* common interest development (CID) is located at the southwest corner of Endless View Drive and Rolling Hills Parkway, Rocky Point Estates, California. We are using an inception date for the components of January 1, 1990. ***This study is for January 1, 2016 through December 31, 2016, the Association's fiscal year.***

In general, reserve funds are funds set aside from collected association fees paid by owners of a common interest development. These funds earn interest and are disbursed when deemed necessary by the Board of Directors. The purpose of a reserve study is to determine how much money should exist in a reserve fund at a given point in time or to project required future contributions and expenditure amounts so that sufficient reserve funds are available when needed. Our reserve study is generated using proprietary SCT software and a combination of local industry standards and national average replacement costs.

The SCT software utilizes the weighted average life (WAL) of the reserve components. The future cost method for the WAL is calculated by using the current replacement cost of each component, as of the analysis date, and the number of years until each reserve component is scheduled to be replaced. This determines the monthly reserve contributions needed and calculates the future reserve balances.

A 30-year "Cash Flow and Percent Funded Projection" analysis and "Graph" are produced to verify and define the relationship of the Cash Flow (annual beginning balance) with respect to the 100% funded amount. Ideally, the Cash Flow line of the graph should run parallel to and below the "Percent Funded" line of the graph, see funding goals.

The following study has been prepared with several assumed factors taken into account: 3.00% inflation rate; a 1.00% return on investment (interest earned); taxes on interest earned is paid for through the operating fund; an estimated remaining life of each reserve component; and an estimated current replacement cost of each reserve component.

Typically, any component that has a life cycle (full life) of less than two years should be budgeted and paid for through normal operating or property maintenance funds and is not included as part of this study.

The current deficiency (or surplus if the number is in parenthesis) in reserve funding expressed on a per unit basis is \$837.73. This is calculated by subtracting the ending balance (\$1,000,000) from the 100% funded figure (\$1,083,773.00), then divided by the number of ownership interests (100). There is currently no requirement to be fully funded.



Summary (continued)

As of January 1, 2016, the estimated reserve fund balance is \$1,000,000 and the estimated current replacement cost is \$1,989,400 of the portfolio of reserve components. The projected future replacement cost of the portfolio is \$2,776,456, calculated at an annually compounded inflation rate of 3.00%. The Davis-Stirling Common Interest Development Act requires the disclosure of the *current reserve fund balance divided by the current replacement cost* (this is not *Percent Funded*). Currently, *this factor for PERFECT WORLD HOMEOWNERS ASSOCIATION is 50.27%*.

The Association's level of funding for the fiscal year (January 1, 2016 through December 31, 2016) which is based upon the final estimated reserve fund balance divided by the reserve components' fully funded amount is **94.12%, and is referred to as *Percent Funded***. The Association would be 100.00% funded if there were \$1,135,882.33 in the reserve fund.

Our original analysis of the cash flow for this association indicated future inadequate funding (see the graph, the "square box and/or pink line"). This line represents the cash flow if there were no annual increases to the Reserves. ***It is our understanding the Board of Directors will allocate a total of \$10,000 starting in 2016 (\$100.00 per unit per month for each of the 100 ownership interests) per month towards the reserve fund. To offset the future cash shortfall we recommend and have included an increase of 2.97% starting in 2017 for 29 years. The increase is scheduled to take effect in the year 2017.*** The Board of Directors may raise or lower this amount, however, it will impact the level of funding on reserves. These numbers, by themselves, are not a clear indicator of financial strength and could indicate underfunding, overfunding, or adequate funding.

Sincerely,



The image shows a handwritten signature in blue ink that reads "mcd". To the right of the signature is a circular professional seal. The seal contains the text "MICHAEL C GRAVES" at the top, "CAI-ES" in the middle, and "00039" in the center. Below the number, it says "Designation" and "Reserve Specialist". The seal has a dashed outer border.

Michael C. Graves, R.S. #00039
SCT Reserve Consultants, Inc.

Year 2016 Reserve Budget (AICPA Approved)

Categories	100% Funded Dec 31, 2016	Percent Funded Dec 31, 2016	Beginning Balance Jan 01, 2016	Annual Reserve Allocation	Monthly Reserve Allocation	Special Assessment Allocation	Annual Interest Allocation	Expenditure	Ending Balance Dec 31, 2016
Access System	\$18,625	94.12%	\$15,511.85	\$1,861.42	\$155.12	\$0.00	\$156.06	\$0.00	\$17,529.33
Asphalt	\$282,000	94.12%	\$234,863.95	\$28,183.67	\$2,348.64	\$0.00	\$2,362.87	\$0.00	\$265,410.49
Buildings, Decks	\$47,833	94.12%	\$91,162.71	\$10,939.53	\$911.63	\$0.00	\$917.15	\$58,000.00	\$45,019.39
Buildings, Roof	\$530,800	94.12%	\$442,077.24	\$53,049.27	\$4,420.77	\$0.00	\$4,447.55	\$0.00	\$499,574.06
Electrical/Lights	\$26,709	94.12%	\$22,244.61	\$2,669.35	\$222.45	\$0.00	\$223.79	\$0.00	\$25,137.76
Fence & Gates	\$31,067	94.12%	\$25,873.90	\$3,104.87	\$258.74	\$0.00	\$260.31	\$0.00	\$29,239.08
Irrigation	\$69,880	94.12%	\$58,199.62	\$6,983.95	\$582.00	\$0.00	\$585.52	\$0.00	\$65,769.10
Landscape	\$5,200	94.12%	\$4,330.82	\$519.70	\$43.31	\$0.00	\$43.57	\$0.00	\$4,894.09
Paint	\$102,000	94.12%	\$87,605.51	\$10,512.66	\$876.06	\$0.00	\$881.36	\$3,000.00	\$95,999.54
Pool & Spa	\$21,768	94.12%	\$18,129.77	\$2,175.57	\$181.30	\$0.00	\$182.40	\$0.00	\$20,487.74
Totals:	\$1,135,882	94.12%	\$1,000,000.00	\$120,000.00	\$10,000.00	\$0.00	\$10,060.57	\$61,000.00	\$1,069,060.57



Component Identification Report

Identified Major Components	Quantity	Measurement Basis	Estimated Full Life In Years	Estimated Remaining Life In Years	Basis Cost	Estimated Current Replacement Cost	Estimated Future Replacement Cost (3% inflation)	Straight Line Allocation (Annual)	100% Funded Jan 01, 2016
Access System									
Battery backup system	2	Each	8	2	\$1,000.00	\$2,000	\$2,122	\$250	\$1,500
Gate operators	2	Each	10	4	\$3,500.00	\$7,000	\$7,879	\$700	\$4,200
Loop systems	2	Each	16	4	\$3,000.00	\$6,000	\$6,753	\$375	\$4,500
Magnetic locks	2	Each	8	2	\$1,200.00	\$2,400	\$2,546	\$300	\$1,800
Phone directory	1	Each	12	1	\$4,000.00	\$4,000	\$4,120	\$333	\$3,667
Strobe, emergency access	1	Each	10	1	\$1,000.00	\$1,000	\$1,030	\$100	\$900
<i>Subtotal:</i>						\$22,400	\$24,450	\$2,058	\$16,567
Asphalt									
Repair/overlay/R&R	50,000	Square Feet	28	5	\$2.50	\$125,000	\$144,909	\$4,464	\$102,679
Repair/overlay/R&R	50,000	Square Feet	28	13	\$2.50	\$125,000	\$183,567	\$4,464	\$66,964
Repair/overlay/R&R	100,000	Square Feet	28	21	\$2.50	\$250,000	\$465,074	\$8,929	\$62,500
Seal/stripe/repair	200,000	Square Feet	4	1	\$0.16	\$32,000	\$32,960	\$8,000	\$24,000
<i>Subtotal:</i>						\$532,000	\$826,510	\$25,857	\$256,143
Buildings, Decks									
Deck recoat	4,000	Square Feet	4	0	\$2.00	\$8,000	\$8,000	\$2,000	\$8,000
Deck repairs/R&R	2,000	Each	24	0	\$25.00	\$50,000	\$50,000	\$2,083	\$50,000
Deck repairs/R&R	2,000	Each	24	4	\$25.00	\$50,000	\$56,275	\$2,083	\$41,667
<i>Subtotal:</i>						\$108,000	\$114,275	\$6,166	\$99,667
Buildings, Roof									
Built-up, flat	200	Square	16	10	\$400.00	\$80,000	\$107,513	\$5,000	\$30,000
Gutters & downspouts	4,500	Linear Feet	30	12	\$6.00	\$27,000	\$38,496	\$900	\$16,200
Gutters & downspouts	4,500	Linear Feet	30	13	\$6.00	\$27,000	\$39,650	\$900	\$15,300
Tile/underlayment	750	Square	30	12	\$500.00	\$375,000	\$534,660	\$12,500	\$225,000
Tile/underlayment	750	Square	30	13	\$500.00	\$375,000	\$550,700	\$12,500	\$212,500
<i>Subtotal:</i>						\$884,000	\$1,271,019	\$31,800	\$499,000
Electrical/Lights									
Meter cabinets, SS	3	Each	24	6	\$3,000.00	\$9,000	\$10,746	\$375	\$6,750



Component Identification Report

(continued)

Identified Major Components	Quantity	Measurement Basis	Estimated Full Life In Years	Estimated Remaining Life In Years	Basis Cost	Estimated Current Replacement Cost	Estimated Future Replacement Cost (3% inflation)	Straight Line Allocation (Annual)	100% Funded Jan 01, 2016
Pole fixtures	16	Each	25	9	\$1,800.00	\$28,800	\$37,577	\$1,152	\$18,432
<i>Subtotal:</i>						\$37,800	\$48,323	\$1,527	\$25,182
Fence & Gates									
Fence, metal, Pool Area	400	Linear Feet	20	5	\$60.00	\$24,000	\$27,823	\$1,200	\$18,000
Gates, pedestrian	2	Each	12	5	\$800.00	\$1,600	\$1,855	\$133	\$933
Gates, vehicle	2	Each	30	4	\$6,000.00	\$12,000	\$13,506	\$400	\$10,400
<i>Subtotal:</i>						\$37,600	\$43,184	\$1,733	\$29,333
Irrigation									
Backflow valves	6	Each	20	3	\$1,200.00	\$7,200	\$7,868	\$360	\$6,120
Controller cabinets, SS	6	Each	24	11	\$2,000.00	\$12,000	\$16,611	\$500	\$6,500
Controllers	6	Each	12	6	\$2,400.00	\$14,400	\$17,194	\$1,200	\$7,200
System renovation	1	Lump Sum	25	2	\$50,000.00	\$50,000	\$53,045	\$2,000	\$46,000
<i>Subtotal:</i>						\$83,600	\$94,718	\$4,060	\$65,820
Landscape									
Plant material	1	Lump Sum	25	23	\$30,000.00	\$30,000	\$59,208	\$1,200	\$2,400
Tree replacement	6	Each	3	2	\$400.00	\$2,400	\$2,546	\$800	\$800
<i>Subtotal:</i>						\$32,400	\$61,754	\$2,000	\$3,200
Paint									
Buildings, stucco	100	Per Unit	8	6	\$1,500.00	\$150,000	\$179,108	\$18,750	\$37,500
Buildings, trim, wood	100	Per Unit	4	2	\$600.00	\$60,000	\$63,654	\$15,000	\$30,000
Fence & gates, metal	1	Lump Sum	4	0	\$3,000.00	\$3,000	\$3,000	\$750	\$3,000
<i>Subtotal:</i>						\$213,000	\$245,762	\$34,500	\$70,500
Pool & Spa									
Pool filter, sand	1	Each	15	7	\$2,400.00	\$2,400	\$2,952	\$160	\$1,280
Pool heater	1	Each	10	5	\$5,000.00	\$5,000	\$5,796	\$500	\$2,500
Pool House renovation	1	Lump Sum	15	9	\$8,000.00	\$8,000	\$10,438	\$533	\$3,200
Pool pumpset	1	Each	8	2	\$1,000.00	\$1,000	\$1,061	\$125	\$750



Component Identification Report

(continued)

Identified Major Components	Quantity	Measurement Basis	Estimated Full Life In Years	Estimated Remaining Life In Years	Basis Cost	Estimated Current Replacement Cost	Estimated Future Replacement Cost (3% inflation)	Straight Line Allocation (Annual)	100% Funded Jan 01, 2016
Pool resurface/tile	1	Each	12	6	\$10,000.00	\$10,000	\$11,941	\$833	\$5,000
Spa filter, sand	1	Each	15	7	\$2,200.00	\$2,200	\$2,706	\$147	\$1,173
Spa heater	1	Each	10	5	\$4,000.00	\$4,000	\$4,637	\$400	\$2,000
Spa pumpset, circulation	1	Each	8	3	\$1,000.00	\$1,000	\$1,093	\$125	\$625
Spa pumpset, jet	1	Each	12	2	\$1,000.00	\$1,000	\$1,061	\$83	\$833
Spa resurface/tile	1	Each	8	6	\$4,000.00	\$4,000	\$4,776	\$500	\$1,000
<i>Subtotal:</i>						\$38,600	\$46,461	\$3,406	\$18,361
Totals:						\$1,989,400	\$2,776,456	\$113,107	\$1,083,773



Component Replacement Cost Chart (by category)



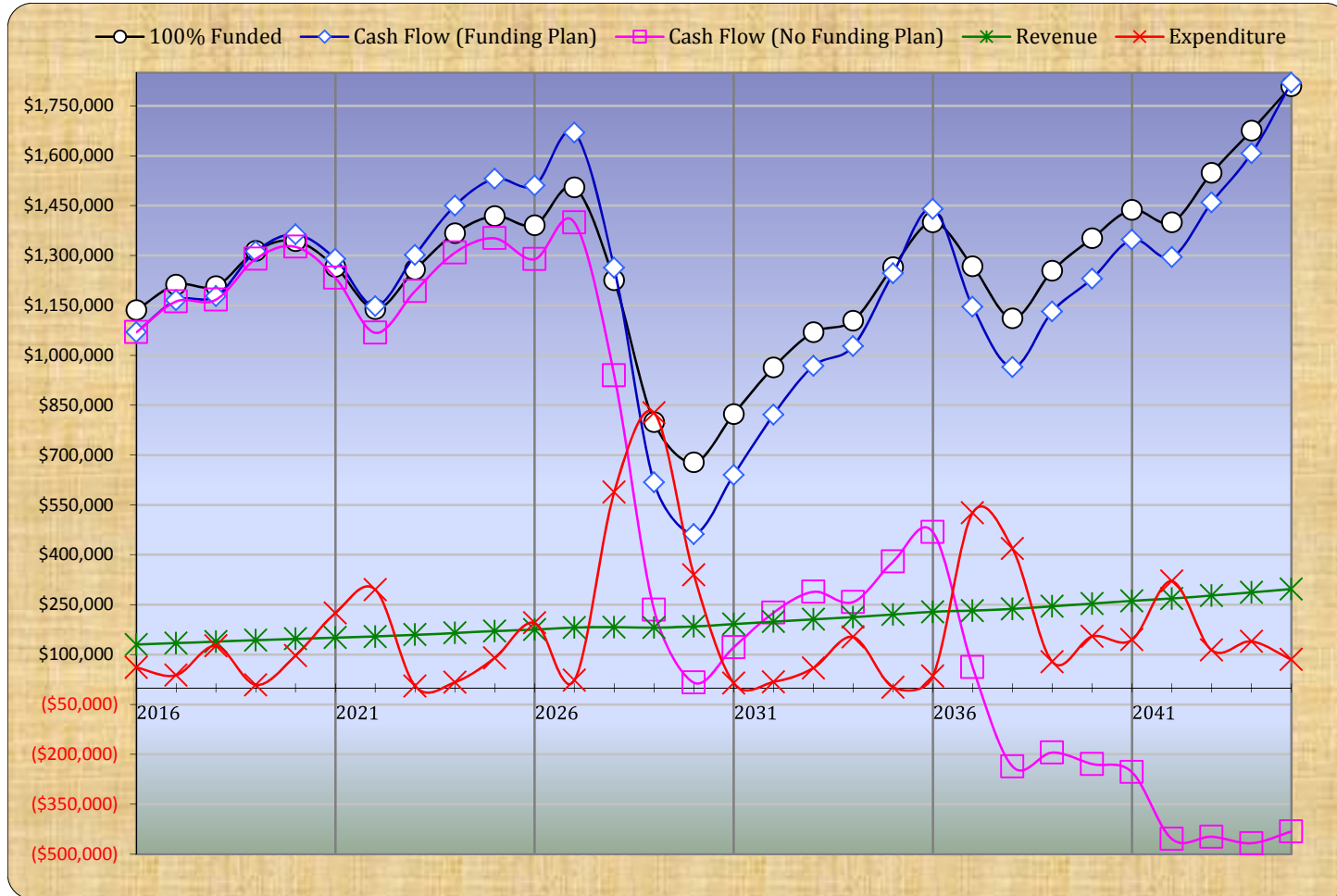
Cash Flow and Percent Funded Projections

Fiscal Year: January 01, 2016 - December 31, 2016												
Year	End of Year				Revenue					Expenditures		
	100% Funded	Cash Flow (Balance with Funding Plan)	Percent Funded (EOY)	Cash Flow (Balance without Funding Plan)	Contribution Annual	Contribution Unit/Month	Contribution %Change	Special Assessment, Bank & Litigation	Interest	Components	Deferred & Non-Recurring	Taxes
2015	\$1,083,773	\$1,000,000	92.27%									
2016	\$1,135,882	\$1,069,061	94.12%	\$1,069,061	\$120,000	\$100.00		\$0	\$10,061	\$61,000	\$0	\$0
2017	\$1,212,244	\$1,165,507	96.14%	\$1,161,926	\$123,564	\$102.97	2.97%	\$0	\$10,993	\$38,110	\$0	\$0
2018	\$1,207,937	\$1,177,840	97.51%	\$1,166,952	\$127,234	\$106.03	2.97%	\$0	\$11,134	\$126,035	\$0	\$0
2019	\$1,314,274	\$1,312,295	99.85%	\$1,290,231	\$131,013	\$109.18	2.97%	\$0	\$12,403	\$8,960	\$0	\$0
2020	\$1,343,603	\$1,363,333	101.47%	\$1,326,069	\$134,904	\$112.42	2.97%	\$0	\$12,928	\$96,794	\$0	\$0
2021	\$1,266,006	\$1,289,572	101.86%	\$1,232,929	\$138,910	\$115.76	2.97%	\$0	\$12,228	\$224,899	\$0	\$0
2022	\$1,138,661	\$1,148,029	100.82%	\$1,067,664	\$143,036	\$119.20	2.97%	\$0	\$10,829	\$295,409	\$0	\$0
2023	\$1,257,840	\$1,301,873	103.50%	\$1,193,280	\$147,284	\$122.74	2.97%	\$0	\$12,217	\$5,657	\$0	\$0
2024	\$1,366,931	\$1,450,232	106.09%	\$1,308,731	\$151,659	\$126.38	2.97%	\$0	\$13,676	\$16,975	\$0	\$0
2025	\$1,418,966	\$1,531,115	107.90%	\$1,351,848	\$156,163	\$130.14	2.97%	\$0	\$14,488	\$89,768	\$0	\$0
2026	\$1,391,684	\$1,510,817	108.56%	\$1,288,745	\$160,801	\$134.00	2.97%	\$0	\$14,307	\$195,405	\$0	\$0
2027	\$1,504,969	\$1,669,482	110.93%	\$1,399,374	\$165,577	\$137.98	2.97%	\$0	\$15,789	\$22,701	\$0	\$0
2028	\$1,225,625	\$1,263,095	103.06%	\$939,527	\$170,494	\$142.08	2.97%	\$0	\$11,959	\$588,839	\$0	\$0
2029	\$799,169	\$617,480	77.27%	\$234,825	\$175,558	\$146.30	2.97%	\$0	\$5,611	\$826,784	\$0	\$0
2030	\$677,878	\$462,670	68.25%	\$15,468	\$180,772	\$150.64	2.97%	\$0	\$3,843	\$339,425	\$0	\$0
2031	\$823,293	\$640,235	77.77%	\$122,068	\$186,141	\$155.12	2.97%	\$0	\$5,446	\$14,022	\$0	\$0
2032	\$963,950	\$821,476	85.22%	\$226,074	\$191,669	\$159.72	2.97%	\$0	\$7,223	\$17,652	\$0	\$0
2033	\$1,069,466	\$968,005	90.51%	\$288,871	\$197,362	\$164.47	2.97%	\$0	\$8,669	\$59,503	\$0	\$0
2034	\$1,104,435	\$1,027,622	93.05%	\$258,025	\$203,224	\$169.35	2.97%	\$0	\$9,272	\$152,878	\$0	\$0
2035	\$1,265,214	\$1,246,484	98.52%	\$379,448	\$209,259	\$174.38	2.97%	\$0	\$11,356	\$1,754	\$0	\$0
2036	\$1,399,937	\$1,440,185	102.88%	\$468,485	\$215,474	\$179.56	2.97%	\$0	\$13,265	\$35,039	\$0	\$0
2037	\$1,268,144	\$1,146,109	90.38%	\$62,358	\$221,874	\$184.89	2.97%	\$0	\$10,513	\$526,463	\$0	\$0
2038	\$1,111,068	\$964,340	86.79%	(\$236,502)	\$228,464	\$190.39	2.97%	\$0	\$8,628	\$418,860	\$0	\$0
2039	\$1,254,151	\$1,131,550	90.22%	(\$194,656)	\$235,249	\$196.04	2.97%	\$0	\$10,115	\$78,154	\$0	\$0
2040	\$1,352,071	\$1,230,388	91.00%	(\$229,148)	\$242,236	\$201.86	2.97%	\$0	\$11,095	\$154,492	\$0	\$0
2041	\$1,437,316	\$1,347,569	93.76%	(\$253,619)	\$249,430	\$207.86	2.97%	\$0	\$12,221	\$144,471	\$0	\$0
2042	\$1,400,064	\$1,295,243	92.51%	(\$454,520)	\$256,838	\$214.03	2.97%	\$0	\$11,737	\$320,901	\$0	\$0
2043	\$1,548,315	\$1,459,671	94.27%	(\$447,806)	\$264,466	\$220.39	2.97%	\$0	\$13,248	\$113,286	\$0	\$0
2044	\$1,675,851	\$1,607,115	95.90%	(\$467,370)	\$272,321	\$226.93	2.97%	\$0	\$14,686	\$139,564	\$0	\$0
2045	\$1,809,559	\$1,819,422	100.55%	(\$432,206)	\$280,409	\$233.67	2.97%	\$0	\$16,735	\$84,836	\$0	\$0
Totals:					\$5,681,385			\$0	\$336,674	\$5,198,637	\$0	\$0



Cash Flow and Percent Funded Chart

(December 31, 2016)



10-Year Expenditure and Cash Flow Projection

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Beginning Balance	\$1,000,000	\$1,069,061	\$1,165,507	\$1,177,840	\$1,312,295	\$1,363,333	\$1,289,572	\$1,148,029	\$1,301,873	\$1,450,232
Contribution (+)	\$120,000	\$123,564	\$127,234	\$131,013	\$134,904	\$138,910	\$143,036	\$147,284	\$151,659	\$156,163
<i>Average/Month/Unit</i>	\$100.00	\$102.97	\$106.03	\$109.18	\$112.42	\$115.76	\$119.20	\$122.74	\$126.38	\$130.14
<i>Percent Change</i>		2.97%	2.97%	2.97%	2.97%	2.97%	2.97%	2.97%	2.97%	2.97%
Special Assessments (+)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Interest Earned (+)	\$10,061	\$10,993	\$11,134	\$12,403	\$12,928	\$12,228	\$10,829	\$12,217	\$13,676	\$14,488
Tax on Interest (-)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Interest	\$10,061	\$10,993	\$11,134	\$12,403	\$12,928	\$12,228	\$10,829	\$12,217	\$13,676	\$14,488
Access System										
Battery backup system			\$2,122							
Gate operators					\$7,879					
Loop systems					\$6,753					
Magnetic locks			\$2,546							
Phone directory		\$4,120								
Strobe, emergency access		\$1,030								
Asphalt										
Repair/overlay/R&R						\$144,909				
Seal/stripe/repair		\$32,960				\$37,097				\$41,753
Buildings, Decks										
Deck recoat	\$8,000				\$9,004				\$10,134	
Deck repairs/R&R	\$50,000				\$56,275					
Buildings, Roof										
Built-up, flat										
Gutters & downspouts										
Tile/underlayment										
Electrical/Lights										
Meter cabinets, SS							\$10,746			
Pole fixtures										\$37,577
Fence & Gates										
Fence, metal, Pool Area						\$27,823				
Gates, pedestrian						\$1,855				



10-Year Expenditure and Cash Flow Projection

(continued)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gates, vehicle					\$13,506					
Irrigation										
Backflow valves				\$7,868						
Controller cabinets, SS										
Controllers							\$17,194			
System renovation			\$53,045							
Landscape										
Plant material										
Tree replacement			\$2,546			\$2,782			\$3,040	
Paint										
Buildings, stucco							\$179,108			
Buildings, trim, wood			\$63,654				\$71,643			
Fence & gates, metal	\$3,000				\$3,377				\$3,800	
Pool & Spa										
Pool filter, sand								\$2,952		
Pool heater						\$5,796				
Pool House renovation										\$10,438
Pool pumpset			\$1,061							
Pool resurface/tile							\$11,941			
Spa filter, sand								\$2,706		
Spa heater						\$4,637				
Spa pumpset, circulation				\$1,093						
Spa pumpset, jet			\$1,061							
Spa resurface/tile							\$4,776			
Component Exp (-)	\$61,000	\$38,110	\$126,035	\$8,960	\$96,794	\$224,899	\$295,409	\$5,657	\$16,975	\$89,768
Non-recurring Exp (-)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Ending Balance	\$1,069,061	\$1,165,507	\$1,177,840	\$1,312,295	\$1,363,333	\$1,289,572	\$1,148,029	\$1,301,873	\$1,450,232	\$1,531,115





Personal Credentials

Michael C. Graves R.S.
Reserve Funding Specialist

Designations

- ◆ R.S., 2000, Community Association Institute

Distinctions

- ◆ 2013 Educated Business Partner, Community Association Institute

Degrees

- ◆ B.A., Economics, 1983, San Diego State University
- ◆ A.S., Business Administration, 1980 Citrus College

Associations

- ◆ California Association of Community Managers (CACM):

Past Instructor for Facilities Management Course VIII, "The Guide to Reserve Study Components & Funding",

Ambassador Committee Member

- ◆ Community Associations Institute (CAI), Affiliate Member:

Coachella Valley Chapter (CV)

Greater Inland Empire Chapter (GRIE)

- *Past President,*

Orange County Regional Chapter (OCRC)

- *Past Board Treasurer*

San Diego Chapter (SD)

- *Past Board Treasurer*

Publications

- ◆ "Ask The Experts", O.C. View, May/June 2004.
- ◆ "Fiduciary Responsibility Forum", CondoManagement, December 2003.
- ◆ "Does Our Association Have Money Or Not", Quorum, June 2001.
- ◆ "How Do You Use Your Reserve Study To Finance Remodeling Work", Quorum, April 2000.
- ◆ Numerous Speaking and Panel Engagements

Awards

- ◆ Community Associations Institute, GRIE, 2012 Hall of Fame
2000 *Committee Member of the Year*
- ◆ Community Associations Institute, OCRC, 2009 Committee Member of the Year
2006 *Ellen Elish Award*
2006 *Presidents Award*
- ◆ California Association of Community Managers, 2001, Vision Award, *Excellence in Service*

Professional Responsibilities

As Reserve Fund Specialist for SCT Reserve Consultants, Inc. Mr. Graves:

- ◆ Manages reserve study site inspections and funding analyses
- ◆ Prepares reserve study reports and proposals
- ◆ Markets reserve study services through professional contacts and trade associations' meetings and shows

Professional Experience

Mr. Graves' reserve study experience includes:

- ◆ Numerous Levels I, II, and III reserve studies throughout San Diego, Los Angeles, Orange, Riverside, San Bernardino, and Imperial Counties.
- ◆ Familiar with components that go into a reserve study.
- ◆ Able to assist Associations in determining a well-suited funding plan that fits their reserve goals.
- ◆ Utilizing Property Reserve Analysis (PRA) System software to generate Component definition files.
- ◆ Developing SCT Reserve Analysis System software to calculate elements used in the Rough Draft and Final Reports.
- ◆ Meet with Association's Board of Directors to review the draft of the reserve study.
- ◆ Consideration of Board's input with respect to incorporate component replacement and funding policies.



Disclosure Statements

SCT Reserve Consultants, Inc. endeavors to provide the most accurate reserve study possible. However, the current replacement costs of the listed components are based on estimates utilizing; local trades, contractor interviews, and national cost databases. Regular maintenance of reserve components is required to realize the full useful life of each component. Changes in fees for labor and materials, acts of God, extraordinary weather conditions, vandalism and unusual wear of the reserve components may have an adverse impact on the useful life and the cost to replace a particular reserve component. SCT Reserve Consultants, Inc. did not identify, nor did it purport to expound on, any possible construction defects on the project. All dollar figures are subject to rounding errors.

The completeness of this reserve study relies heavily on information provided to us by the Association's representative(s). Incomplete or missing information may cause a distortion of the Association's financial condition. The reserve balance presented in this reserve study is based on information provided and was not audited. SCT Reserve Consultants, Inc. assumes that the information provided to us by the Association's representative(s) is both reliable and accurate and for a Level II study (update with-site-visit) and Level III study (update with no-site-visit) the Association is to have considered previously developed component quantities and/or lump sum expenditures as accurate and reliable. Information provided about reserve projects is also understood to be reliable. Any on-site inspection should not be considered a project audit or quality inspection.

In the event we have performed an on-site inspection of the community, the data compiled has been used with financial, physical, quantity, and historical information provided by the Association's representative(s). Our physical inspection would consist primarily of visual inspection, measurement, drawing take-offs, and photographic documentation. No destructive testing methods were used.

SCT Reserve Consultants, Inc. has prepared this reserve study in conformance with the requirements laid out by the California Civil Code (§5550) and the Community Association Institute (CAI). We have no other current involvement with PERFECT WORLD HOMEOWNERS ASSOCIATION and have no actual or perceived conflicts of interest with PERFECT WORLD HOMEOWNERS ASSOCIATION.

This reserve study is a reflection of the information provided to us by the Association's representative(s) and is assembled for the budgeting and planning purposes of the Board of Directors only. Information provided about reserve projects will be considered reliable. The reserve study is not to be used for the purpose of performing an audit, quality/forensic analyses, or background checks of historical records.



Definition of Terms

100% Funded – from the “Component Identification Report”, see Fully Funded Balance (FFB).

Basis Cost - the estimated unit (of measurement basis) replacement cost.

Cash Flow Method - a method of developing 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 anticipated schedule of reserve expenses until the desired funding goal is achieved.

Contingency Fund – typically 3.0% to 5.0% of annual reserve allocation may be established to pay for incidental and miscellaneous reserve expenditures (optional).

Current Replacement Cost (estimated) - the total estimated cost of a component’s replacement or long-term maintenance action at the time of the study. This amount is calculated by multiplying the measurement basis quantity times the basis cost.

Davis-Stirling Common Interest Development Act - the name for the sections of the California Civil Code (4000 through 6150) that are the framework for the operation and management of common interest developments in California.

Fully Funded Balance (FFB) - total accrued depreciation. This number is calculated for each reserve component, then summed together for a total dollar value.

Expressed as $FFB = (Current\ Replacement\ Cost) \times (Estimated\ Used\ Life) / (Estimated\ Full\ Life)$

Full Life (estimated) - the original estimate of a period of time that a component will last before major long-term maintenance or replacement is required.

Funding Goals – there are four basic categories of funding plan goals:

- ⇒ **Baseline Funding** – establishing a reserve-funding goal of keeping the reserve cash balance above zero.
- ⇒ **Full Funding** – setting a reserve-funding goal of attaining and maintaining reserves at or near 100% funded.
- ⇒ **Statutory Funding** – establishing a reserve-funding goal of setting aside the specific minimum amount of reserves required by local statutes.
- ⇒ **Threshold Funding** – establishing a reserve-funding goal of keeping the reserve balance above a specified dollar or percent funded amount.

Future Replacement Cost (estimated) – the current replacement cost multiplied by an inflation factor (compounded annually).

Level I Reserve Study - is considered a full study, it consists of:

- ⇒ **Component Inventory** - quantification and verification of the reserve components.
- ⇒ **Condition Assessment** – the task of evaluating the current condition of the component based on observed or reported conditions.
- ⇒ **Life and Valuation Estimates** – the task of estimating Full Life, Remaining Life and repair and replacement costs for the components.
- ⇒ **Fund Status** – status of the reserve fund as compared to an established benchmark such as percent funding.
- ⇒ **Funding Plan** – an Association’s plan to provide income to the reserve fund to offset anticipated expenditures from that fund.

Level II Reserve Study - is considered an update (on-site) study, it consists of:

- ⇒ **Component Inventory** - verification of the reserve components only, no quantification.
- ⇒ **Condition Assessment** – the task of evaluating the current condition of the component based on observed or reported conditions.
- ⇒ **Life and Valuation Estimates** – the task of estimating Full Life, Remaining Life and repair and replacement costs for the components.

Definition of Terms (continued)

- ⇒ **Fund Status** – status of the reserve fund as compared to an established benchmark such as percent funding.
- ⇒ **Funding Plan** – an Association’s plan to provide income to the reserve fund to offset anticipated expenditures from that fund.

Level III Reserve Study - is considered a financial update, it consists of:

- ⇒ **Life and Valuation Estimates** – the task of estimating Full Life, Remaining Life and repair and replacement costs for the components.
- ⇒ **Fund Status** – status of the reserve fund as compared to an established benchmark such as percent funding.
- ⇒ **Funding Plan** – an Association’s plan to provide income to the reserve fund to offset anticipated expenditures from that fund.

Measurement Basis - the unit of measurement, i.e.: each, linear feet, square feet, squares (100 sf).

Percent Funded – the ratio, at a particular point of time, of the actual (or projected) Reserve Balance to the Fully Funded Balance, expressed as a percentage.

Remaining Life (estimated) - an educated evaluation of the amount of time before the component will need replacement.

Reserve Allocation - money that is collected and applied to particular components (see Year 2016 Reserve Budget).

Reserve Component - is defined as any major component that needs major maintenance or replacement at a frequency exceeding two years but typically not more than 30 years.

Reserve Fund Balance (estimated) - the estimated amount of money in the reserve account(s) as of the study date, typically calculated by adding the prior year’s current reserve balance, remaining reserve allocations, and interest, and then subtracting any known reserve expenditures through the same prior year.

Reserve Study - is a budget-planning tool that identifies the current status of the reserve fund and offers a stable and equitable funding plan to offset the anticipated future major common area expenditures. It consists of two parts:

- ⇒ **Financial Analysis** - the portion of the reserve study where the current status of the reserves (Fund Status) are measured as cash or percent funded and a recommended reserve contribution rate (Funding Plan) are derived, and the projected reserve income and expense over time is presented.
- ⇒ **Physical Analysis** - the portion of the reserve study where the Component Inventory, Condition Assessment, and Life and Valuation Estimate tasks are performed.

Straight Line Allocation (Annual) – from the “Component Identification Report” is a single year’s 100% funded amount, often referred to as the ideal or recommended allocation level.

Weighted Average Life (WAL) - is calculated by multiplying the cost of each component by the number of months until replacement, creating a weighted average life factor. The total of the factors is divided by the total replacement cost, producing the WAL.



2014 California Civil Code (Selected Sections)

PART 5. COMMON INTEREST DEVELOPMENTS

CHAPTER 6. ASSOCIATION GOVERNANCE

ARTICLE 7. ANNUAL REPORTS

§5300. Annual Budget, Reserves and Other Required Disclosures

(a) Notwithstanding a contrary provision in the governing documents, an association shall distribute an annual budget report 30 to 90 days before the end of its fiscal year.

(b) Unless the governing documents impose more stringent standards, the annual budget report shall include all of the following information:

- (1) A pro forma operating budget, showing the estimated revenue and expenses on an accrual basis.
- (2) A summary of the association's reserves, prepared pursuant to Section 5565.
- (3) A summary of the reserve funding plan adopted by the board, as specified in paragraph (5) of subdivision (b) of Section 5550. The summary shall include notice to members that the full reserve study plan is available upon request, and the association shall provide the full reserve plan to any member upon request.
- (4) A statement as to whether the board has determined to defer or not undertake repairs or replacement of any major component with a remaining life of 30 years or less, including a justification for the deferral or decision not to undertake the repairs or replacement.
- (5) A statement as to whether the board, consistent with the reserve funding plan adopted pursuant to Section 5560, has determined or anticipates that the levy of one or more special assessments will be required to repair, replace, or restore any major component or to provide adequate reserves therefor. If so, the statement shall also set out the estimated amount, commencement date, and duration of the assessment.
- (6) A statement as to the mechanism or mechanisms by which the board will fund reserves to repair or replace major components, including assessments, borrowing, use of other assets, deferral of selected replacements or repairs, or alternative mechanisms.
- (7) A general statement addressing the procedures used for the calculation and establishment of those reserves to defray the future repair, replacement, or additions to those major components that the association is obligated to maintain. The statement shall include, but need not be limited to, reserve calculations made using the formula described in paragraph (4) of subdivision (b) of Section 5570, and may not assume a rate of return on cash reserves in excess of 2 percent above the discount rate published by the Federal Reserve Bank of San Francisco at the time the calculation was made.
- (8) A statement as to whether the association has any outstanding loans with an original term of more than one year, including the payee, interest rate, amount outstanding, annual payment, and when the loan is scheduled to be retired.
- (9) A summary of the association's property, general liability, earthquake, flood, and fidelity insurance policies. For each policy, the summary shall include the name of the insurer, the type of insurance, the policy limit, and the amount of the deductible, if any. To the extent that any of the required information is specified in the insurance policy declaration page, the association may meet its obligation to disclose that information by making copies of that page and distributing it with the annual budget report. The summary distributed pursuant to this paragraph shall contain, in at least 10- point boldface type, the following statement:
"This summary of the association's policies of insurance provides only certain information, as required by Section 5300 of the Civil Code, and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any association member may, upon request and provision of reasonable notice, review the association's insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the association maintains the

2014 California Civil Code (Selected Sections) (continued)

policies of insurance specified in this summary, the association's policies of insurance may not cover your property, including personal property or real property improvements to or around your dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if a loss is covered, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association members should consult with their individual insurance broker or agent for appropriate additional coverage."

- (c) The annual budget report shall be made available to the members pursuant to Section 5320.
- (d) The summary of the association's reserves disclosed pursuant to paragraph (2) of subdivision (b) shall not be admissible in evidence to show improper financial management of an association, provided that other relevant and competent evidence of the financial condition of the association is not made inadmissible by this provision.
- (e) The Assessment and Reserve Funding Disclosure Summary form, prepared pursuant to Section 5570, shall accompany each annual budget report or summary of the annual budget report that is delivered pursuant to this article. [2012 - Based on former §§1365 & 1365.2.5(b)(2)]

CHAPTER 7. FINANCES

ARTICLE 1. ACCOUNTING

§5500. Board's Duty to Review Financial Statements and Accounts

Unless the governing documents impose more stringent standards, the board shall do all of the following:

- (a) Review a current reconciliation of the association's operating accounts on at least a quarterly basis.
- (b) Review a current reconciliation of the association's reserve accounts on at least a quarterly basis.
- (c) Review, on at least a quarterly basis, the current year's actual reserve revenues and expenses compared to the current year's budget.
- (d) Review the latest account statements prepared by the financial institutions where the association has its operating and reserve accounts.
- (e) Review an income and expense statement for the association's operating and reserve accounts on at least a quarterly basis. [2012 - Based on former §1365.5(a)]

ARTICLE 2. USE OF RESERVE FUNDS

§5510. Signatures on and Limitation on Use of Reserve Funds

- (a) The signatures of at least two persons, who shall be directors, or one officer who is not a director and one who is a director, shall be required for the withdrawal of moneys from the association's reserve accounts.
- (b) The board shall not expend funds designated as reserve funds for any purpose other than the repair, restoration, replacement, or maintenance of, or litigation involving the repair, restoration, replacement, or maintenance of, major components that the association is obligated to repair, restore, replace, or maintain and for which the reserve fund was established. [2012 - Based on former §1365.5(b & (c)(1)]

§5515. Transfer or Borrowing from Reserve Funds

- (a) Notwithstanding Section 5510, the board may authorize the temporary transfer of moneys from a reserve fund to the association's general operating fund to meet short-term cashflow requirements or other expenses, if the board has provided notice of the intent to consider the transfer in a board meeting notice provided pursuant to Section 4920.
- (b) The notice shall include the reasons the transfer is needed, some of the options for repayment, and whether a special assessment may be considered.



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(c) If the board authorizes the transfer, the board shall issue a written finding, recorded in the board's minutes, explaining the reasons that the transfer is needed, and describing when and how the moneys will be repaid to the reserve fund.

(d) The transferred funds shall be restored to the reserve fund within one year of the date of the initial transfer, except that the board may, after giving the same notice required for considering a transfer, and, upon making a finding supported by documentation that a temporary delay would be in the best interests of the common interest development, temporarily delay the restoration.

(e) The board shall exercise prudent fiscal management in maintaining the integrity of the reserve account, and shall, if necessary, levy a special assessment to recover the full amount of the expended funds within the time limits required by this section. This special assessment is subject to the limitation imposed by Section 5605. The board may, at its discretion, extend the date the payment on the special assessment is due. Any extension shall not prevent the board from pursuing any legal remedy to enforce the collection of an unpaid special assessment. [2012 - Based on former §1365.5(c)(2)]

§5520. Using Reserve Funds for Litigation; Notice; Accounting

(a) When the decision is made to use reserve funds or to temporarily transfer moneys from the reserve fund to pay for litigation pursuant to subdivision (b) of Section 5510, the association shall provide general notice pursuant to Section 4045 of that decision, and of the availability of an accounting of those expenses.

(b) Unless the governing documents impose more stringent standards, the association shall make an accounting of expenses related to the litigation on at least a quarterly basis. The accounting shall be made available for inspection by members of the association at the association's office. [2012- Based on former §1365.5(d)]

ARTICLE 3. RESERVE PLANNING

§5550. Reserve Study Inspection Frequency; Contents; Funding Plan

(a) At least once every three years, the board shall cause to be conducted a reasonably competent and diligent visual inspection of the accessible areas of the major components that the association is obligated to repair, replace, restore, or maintain as part of a study of the reserve account requirements of the common interest development, if the current replacement value of the major components is equal to or greater than one-half of the gross budget of the association, excluding the association's reserve account for that period. The board shall review this study, or cause it to be reviewed, annually and shall consider and implement necessary adjustments to the board's analysis of the reserve account requirements as a result of that review.

(b) The study required by this section shall at a minimum include:

(1) Identification of the major components that the association is obligated to repair, replace, restore, or maintain that, as of the date of the study, have a remaining useful life of less than 30 years.

(2) Identification of the probable remaining useful life of the components identified in paragraph (1) as of the date of the study.

(3) An estimate of the cost of repair, replacement, restoration, or maintenance of the components identified in paragraph (1).

(4) An estimate of the total annual contribution necessary to defray the cost to repair, replace, restore, or maintain the components identified in paragraph (1) during and at the end of their useful life, after subtracting total reserve funds as of the date of the study.

(5) A reserve funding plan that indicates how the association plans to fund the contribution identified in paragraph (4) to meet the association's obligation for the repair and replacement of all major components with an expected remaining life of 30 years or less, not including those



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components that the board has determined will not be replaced or repaired. [2012 - Based on former §1365.5(e)]

§5560. Reserve Funding Plan Adoption; Assessments Needed for Adequate Funding

- (a) The reserve funding plan required by Section 5550 shall include a schedule of the date and amount of any change in regular or special assessments that would be needed to sufficiently fund the reserve funding plan.
- (b) The plan shall be adopted by the board at an open meeting before the membership of the association as described in Article 2 (commencing with Section 4900) of Chapter 6.
- (c) If the board determines that an assessment increase is necessary to fund the reserve funding plan, any increase shall be approved in a separate action of the board that is consistent with the procedure described in Section 5605. [2012 - Based on former §1365.5(e)]

§5565. Contents of Association's Reserve Summary

The summary of the association's reserves required by paragraph (2) of subdivision (b) of Section 5300 shall be based on the most recent review or study conducted pursuant to Section 5550, shall be based only on assets held in cash or cash equivalents, shall be printed in boldface type, and shall include all of the following:

- (a) The current estimated replacement cost, estimated remaining life, and estimated useful life of each major component.
- (b) As of the end of the fiscal year for which the study is prepared:
 - (1) The current estimate of the amount of cash reserves necessary to repair, replace, restore, or maintain the major components.
 - (2) The current amount of accumulated cash reserves actually set aside to repair, replace, restore, or maintain major components.
 - (3) If applicable, the amount of funds received from either a compensatory damage award or settlement to an association from any person for injuries to property, real or personal, arising out of any construction or design defects, and the expenditure or disposition of funds, including the amounts expended for the direct and indirect costs of repair of construction or design defects. These amounts shall be reported at the end of the fiscal year for which the study is prepared as separate line items under cash reserves pursuant to paragraph (2). Instead of complying with the requirements set forth in this paragraph, an association that is obligated to issue a review of its financial statement pursuant to Section 5305 may include in the review a statement containing all of the information required by this paragraph.
- (c) The percentage that the amount determined for purposes of paragraph (2) of subdivision (b) equals the amount determined for purposes of paragraph (1) of subdivision (b).
- (d) The current deficiency in reserve funding expressed on a per unit basis. The figure shall be calculated by subtracting the amount determined for purposes of paragraph (2) of subdivision (b) from the amount determined for purposes of paragraph (1) of subdivision (b) and then dividing the result by the number of separate interests within the association, except that if assessments vary by the size or type of ownership interest, then the association shall calculate the current deficiency in a manner that reflects the variation. [2012 - Based on former §1365(a)(2)]

§5570. Required Assessment and Reserve Funding Disclosure Summary

- (a) The disclosures required by this article with regard to an association or a property shall be summarized on the following form:

ASSESSMENT AND RESERVE FUNDING DISCLOSURE SUMMARY (typically pages 5 and 6, maybe 7, of report)



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- (b) For the purposes of preparing a summary pursuant to this section:
- (1) “Estimated remaining useful life” means the time reasonably calculated to remain before a major component will require replacement.
 - (2) “Major component” has the meaning used in Section 5550. Components with an estimated remaining useful life of more than 30 years may be included in a study as a capital asset or disregarded from the reserve calculation, so long as the decision is revealed in the reserve study report and reported in the Assessment and Reserve Funding Disclosure Summary.
 - (3) The form set out in subdivision (a) shall accompany each annual budget report or summary thereof that is delivered pursuant to Section 5300. The form may be supplemented or modified to clarify the information delivered, so long as the minimum information set out in subdivision (a) is provided.
 - (4) For the purpose of the report and summary, the amount of reserves needed to be accumulated for a component at a given time shall be computed as the current cost of replacement or repair multiplied by the number of years the component has been in service divided by the useful life of the component. This shall not be construed to require the board to fund reserves in accordance with this calculation. [2012 - Based on former §1365.2.5]

§5580. Community Service Association Disclosure Requirements

- (a) Unless the governing documents impose more stringent standards, any community service organization whose funding from the association or its members exceeds 10 percent of the organization’s annual budget shall prepare and distribute to the association a report that meets the requirements of Section 5012 of the Corporations Code, and that describes in detail administrative costs and identifies the payees of those costs in a manner consistent with the provisions of Article 5 (commencing with Section 5200) of Chapter 6.
- (b) If the community service organization does not comply with the standards, the report shall disclose the noncompliance in detail. If a community service organization is responsible for the maintenance of major components for which an association would otherwise be responsible, the community service organization shall supply to the association the information regarding those components that the association would use to complete disclosures and reserve reports required under this article and Section 5300. An association may rely upon information received from a community service organization, and shall provide access to the information pursuant to the provisions of Article 5 (commencing with Section 5200) of Chapter 6. [2012 - Based on former §1365.3]

