

# MASTER 2021/2022 9MR Reserve Fund and Study Report<sup>1</sup>

Version 1

March 2022

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reviewed by the 9MR HOA Reserve Committee

## ***I. Background and Premise***

RCW64.38.065 requires that an annually-updated reserve study be conducted by our HOA, and it requires that at least once every three years that study be conducted by “an independent reserve study professional”. The other two years in between can be performed voluntarily by HOA agents/directors/committee members; this Report is one of those two years in between and is being performed by the HOA Reserve Committee volunteer members.

The information in this report seeks to accomplish and include:

- per RCW64.38.70 reasonably identify all “reserve components”, which are “...common elements[s] whose cost of maintenance, repair, or replacement is infrequent, significant and impractical to include in an annual budget.”
- per RCW64.38.70 a 'number' for what the HOA's minimum annual assessments would need to be, each year for (30) years, to pay for all regular annual costs and also all reserve components.
- identifies variations from year to year for what the assessment rate should be in order to fulfill varying fiscal obligations,
- identifies unusual or inconsistent costs and maps out a timeline for when various expenditures should be executed and therefore when income at different rates should be secured over the years.

The goal of this work is to do as RCW64.38.070 infers; to try to create fiscal income and expenditure planning that is accurate and reliable enough to prevent the need for otherwise-avoidable special assessments.

This report and related reports are meant to collectively address the following requirements for our HOA:

- it informs directors and all HOA members so they can make educated choices when voting about annual and special assessment rate changes.
- it includes the fiscal information needed to support CCRs, Article IV Section 4, Article V Section 1, and all other CCR clauses where fiscal identification and planning is needed in order to carry forward the terms of the CCRs.

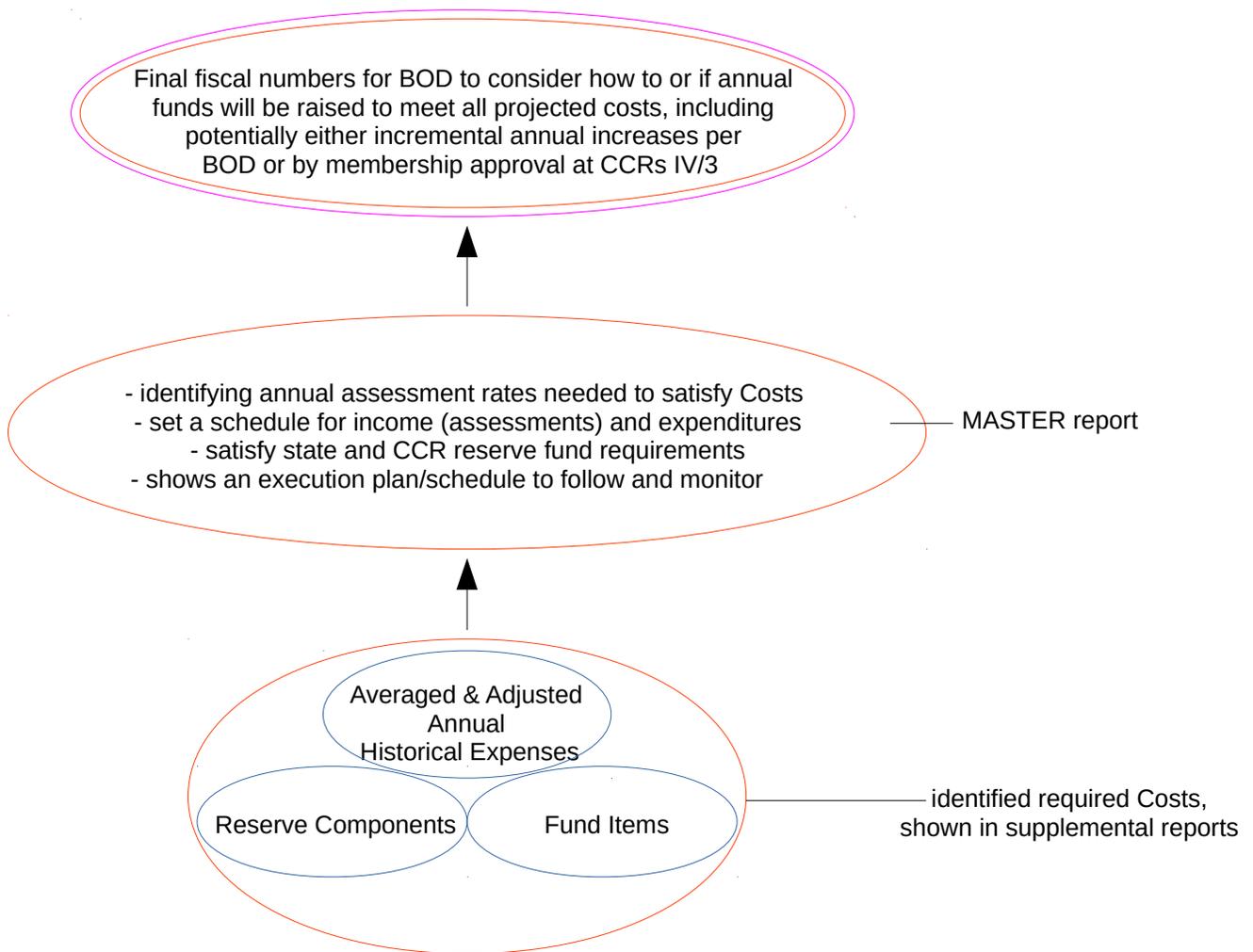
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<sup>1</sup> DISCLAIMER: No professional engineering services or attorney review were provided to formulate any aspect of this Report or any supplemental or other report related to this Report. This author and all directors, committee members and agents of Nine Mile Ranch HOA hereby declare they are not professional engineers and/or attorneys, and in no way can any of this Report or supplemental or related reports be construed as providing professional engineering or direct legal advice. It is recommended to the HOA by the author of this Report that a professional civil engineer be hired or consulted to provide specifications for any road construction/improvement that involves anything beyond regular existing surface and terrain maintenance.

<sup>2</sup> Mr. Coffman is a 35 year civil construction and price estimating professional, regularly performing projects and pricing at much larger scales than are involved here.

- seeks to meet the reserve study requirements as set forth in RCW 64.38, to what degree those study requirements are not fulfilled by an “independent reserve study professional” as defined and required at various clauses in [RCW64.38](#).

Pursuant to the above-cited laws and documents, our HOA – via the management duty of the Board of Directors – is required to pursue securing the assessment income necessary for the establishment and maintenance of a reserve fund (CCRs Article IV Section 4) that will pay for all road maintenance costs and other HOA operations. There are also very specific and extensive projections and reporting that are required under the state RCW which are meant to cause an HOA to make solvent fiscal plans for this income and expenditures for (30) years into the future in order to attempt to avoid undue surprise special assessments. Because the legal requirements in the two different sources (CCRs and state RCWs) are – from a fiscal management perspective – inextricably intertwined and cumulatively complicated and voluminous, this report/analysis combines both requirements together.



This MASTER report – and the supplemental reports – discuss and include three different categories of expenditure classes: [Averaged & Adjusted Annual P&L Expenditure Categories](#), [Reserve Components](#), and [Fund Items](#) as shown in the graphic above. These classes are not meant to be perfect separating itemizations, and the reader may find that any given expenditure item could be labeled under another class. Therefore it is intended that *all the classes together* should satisfy the cumulative requirements in our HOA governing documents and applicable state statutes regarding identifying expenditure items and Reserve Components.

Please note that in the June 2021 HOA elections the membership voted to approve annual assessment rates to pay for [Averaged & Adjusted Annual P&L Expenditure Categories](#) and for [Fund Items](#) but not for [Reserve Components](#). This means that fund amounts for [Reserve Components](#) are included into reserve fund projections below but the funds to actually pay for and perform them have not yet been raised.

**This report is intended to address ONLY the 'requireds' per CCRs; no extras, no 'improvements' ...** extras would be for voters to vote to pay extra for. It does not seek to 'raise the standard' beyond minimum requirements in the CCRs. There are times when a road section may receive an 'improvement' compared to the condition it was in before, but this Report analysis includes only improvements that are identified as necessary in order to maintain the integrity of a road such that it can continue to maintain structural condition and ability to serve reasonable traffic access; that is the established historical standard. So for example, additional culverts and other road erosion and watershed management 'improvements' have been added to Ranch roads throughout the years as they became identified as needed to protect road structure, such costs for which are accounted for through annual assessments in the [Averaged & Adjusted Annual P&L Expenditure Categories](#); those kinds of improvements cause roads to not deteriorate and to continue to remain in service without undue repair expense... those are not expenditures that provide drivers with a more pleasurable or somehow upgraded driving experience. Another example of 'improvements' that are not included: road sections – like the region in Division 5 around and near the Mallard Drive and Blue Grouse intersection – that were originally constructed low in grade compared to surrounding land grades and therefore experience standing water and run-over water at times; in spite of this seeming detraction, that road section has shown to be able to continue to serve reasonable historical traffic at all times like other roads.

### ***What This Analysis Does Include***

- costs for road maintenance/improvements/repairs that make sure reasonably safe lot access is maintained all year round under normal expected traffic levels, with drivers using prudent driving habits for driving on primitive mountain gravel roads and using appropriate 4WD autos that are equipped with appropriate tires.
- Costs for road maintenance/improvements/repairs that facilitate statistically-expected<sup>3</sup> changing traffic levels in what is a 'residential recreational' development per CCRs.
- Costs for road maintenance/improvements/repairs that ensure proper watershedding in order to reasonably protect road surfaces and structure.

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<sup>3</sup> The only reasonable 'statistical expectation' that could be considered – which is what this report and other supplemental reports are based on – is the calculation that the coming 21 years of traffic rate increase may be the same as the prior 21 years. That rate can be derived from [this report](#).

- Costs to pay for all required expenditures under the CCRs beyond road costs, including all administration costs and reasonable costs associated with typical CCR enforcement activities of the nature/scope already conducted in Ranch history as shown in HOA records.
- operations costs under the circumstances of all-volunteer bookkeeping, road management and oversight, collections, and all other business administration.
- Base-reliance on averaged costs from years past; in other words, going with historical standard, which has been minimal at best, and then adjusting up from there where standards did not meet<sup>4</sup> CCR requirements.
- Compensation for annual inflation<sup>5</sup> is included, and sales taxes for expenditures are included.

### ***What it Doesn't Include***

- except for typical historical spring and/or fall raking of washboard when funds allow, it doesn't include road improvements specifically performed to increased driver comfort or a more pleasant driving experience, like additional raking/grading for smoother roads, or additional gravel placement beyond replenishment of what wears away with traffic use.
- road improvements specifically intended to raise the standard of road surfaces<sup>6</sup> beyond the general construction and condition that the developer provided under the CCRs.
- Cost projections for hiring out<sup>7</sup> road maintenance management and oversight, bookkeeping, collections, and office administration. Those services have been historically performed by volunteers – which this report continues to reflect – but those services may need to be hired out as qualified volunteers may not be secured.

## ***II. Thirty Years of Annual Projections: Income and Expenditures***

As stated above, RCW64.38 requires our HOA to identify costs and 'due dates' for all irregular HOA expenditures for thirty years into the future and project assessment rates (income) for each of those thirty years that will be able to pay for the expenditures as they come due. Also, the Nine Mile Ranch CCRs require the board to maintain an adequate reserve fund (and income rates to pay for it) for all HOA fiscal obligations. The income and expenditures shown below represent accomplishing the fiscal planning/projecting for both the RCW and CCR requirements together, so the numbers shown are cumulatively for [Averaged & Adjusted Annual P&L Expenditure Categories](#), [Reserve Components](#) and

4 For examples: 1) traffic has been wearing away surface gravel faster than its been historically replaced, so cost provisions are included to make sure surfaces are maintained according to traffic wear, and 2) several road sections have been abandoned of winter snow plowing for many years because the road condition is too dangerous or damaging on plowing gear... that abandonment has cause some Lot Owners to be denied their right under the CCRs for an easement of enjoyment in and to their property in a residential recreational development that provides snow plowing.

5 2.5% average annual inflation. Note that, in addition to including inflation as a prudent fiscal consideration, [RCW64.38.070\(2\)\(g\)](#) requires HOAs to include inflation into reserve study fiscal projections.

6 While there is no specific intent to install higher quality top coat replenishment gravel on roads as the existing surface gravel wears away because of traffic use, it is inherently likely that – as has been performed for several year now – installing better surface replenishment gravel coincidentally makes roads smoother to drive on while accomplishing the intended goals of replenishment, gradability of material, proper watershedding ability and resistance to surface erosion, reasonable compaction, and binding in with existing road surfaces, as well as saving costs for and improving winter plowing regimens and results because road surface boulderheads are covered with a minimum amount of gravel installation. The final result is 'least cost to achieve road surface maintenance', and in the process by chance the road surface may coincidentally become smoother to drive on. Also, there may be occasions when a higher quality road gravel (compared to the native pit run used during original construction by the developer) may be used in certain road sections in order to lower overall maintenance costs because the original pit run erodes easier, or when steeper road sections need better binding gavel in order to maintain reasonable safety as increased oncoming traffic rates come over the years.

7 Keeping a qualified volunteer staff to adequately perform all these CCR-required tasks may prove to be unachievable at some point, and as such the board may need to ask the membership for increased funds to hire out for any of these services.

[Fund Items](#) together.

The first subsection below shows a summary of assessment rates for (30) years, and the subsection after that shows the details of how each year's assessment rate was arrived at.

### **1. Summary List of Assessment Rates Needed for Each Year**

It will be interesting for the reader to note that most factors in the assessment rates actually go DOWN as years pass, but inflation over time makes the dollar value lessen, so the fiscal number increases.

<b><u>year</u></b>	<b><u>assessment rate per lot</u></b>
2022	\$473.39
2023	\$461.45
2024	\$414.79
2025	\$423.91
2026	\$424.56
2027	\$380.32
2028	\$387.17
2029	\$398.24
2030	\$408.43
2031	\$420.21
2032	\$400.78
2033	\$393.49
2034	\$405.63
2035	\$418.94
2036	\$432.66
2037	\$446.80
2038	\$461.39
2039	\$476.41
2040	\$491.91
2041	\$507.89
2042	\$524.35
2043	\$540.23
2044	\$557.72
2045	\$575.76
2046	\$594.34
2047	\$613.49
2048	\$633.23
2049	\$653.57
2050	\$674.54
2051	\$696.14

### **2. Annual Itemization of Expenditures and Assessments**

NOTES/LEGEND:

- “RC[whatever #]” = Reserve Components, as itemized and detailed in [this supplemental report](#). Note that the entries for “RCs” below are not the amount due to be actually spent that year but rather that the amount shown is the income that needs to be obligated to the RC. So any RC that says “portion of” is an indication that the amount is effectively collecting and setting aside a portion of what that full expenditure will eventually be in the final year (the execution of the project and actual spending of funds). Please remember that an RC's number indicates its year of execution by the last set of numbers in the number... so for example, RC “VIII.2.26” would mean that the project is due to be executed in year 2026.
- “FI[whatever]” = Fund Items, as itemized in [this supplemental report](#).
- “BAA” = baseline annual assessment amount needed, per 2021 dollar values, to pay for expenditures shown in the [Averaged & Adjusted Annual P&L Expenditures Categories](#).
- Each year shown below means 'for that fiscal year'. So for example, “2022” means fiscal year 2022/2023

**Year 2022**

- Expenditures:
  - \$78,969.10 for BAA.
  - 648.57 for FI2
  - 27.29 for FI3
  - 1991.04 inflation on all above
  - 4256.72 portion of FI5
  - 114.50 portion of RC II.1.31
  - 5648.23 portion of RC II.2.29-32
  - 2927.00 all of RC IV.1.21
  - 328.60 portion of RC V.1.41
  - 367.38 portion of RC V.2.29
  - 380.67 portion of RC V.3.23-24
  - 9083.49 portion of RC V.4.31
  - 1035.00 portion of RC V.5.25
  - 1111.75 portion of RC V.6.25
  - 823.33 portion of RC V.7.24
  - 1162.83 portion of RC VI.1.27
  - 501.17 portion of RC VI.2.33
  - 6762.00 portion of RC VII.1.23
  - 242.80 portion of RC VIII.1.31
  - 11,788.40 portion of RC VIII.2.26
  - 10,057.50 portion of RC VIII.3.21-22
  - 3500.00 all of RC VIII.4.21
  - 141,727.37 subtotal above
  - 5669.09 plus FI1 (4% uncollected rate each year, on sub total)

- 147,224.29<sup>8</sup> total income needed
- Divided by 311 lots = **\$473.39 per Lot annual assessment rate**

**Year 2023**

- Expenditures:
  - \$78,969.10 for BAA.
  - 1297.14 for FI2
  - 54.58 for FI3
  - 4066.18 inflation on all above
  - 4362.80 portion of FI5
  - 114.50 portion of RC II.1.31
  - 5648.23 portion of RC II.2.29-32
  - 328.60 portion of RC V.1.41
  - 367.38 portion of RC V.2.29
  - 380.67 portion of RC V.3.23-24
  - 9083.49 portion of RC V.4.31
  - 1035.00 portion of RC V.5.25
  - 1111.75 portion of RC V.6.25
  - 823.33 portion of RC V.7.24
  - 1162.83 portion of RC VI.1.27
  - 501.17 portion of RC VI.2.33
  - 6762.00 portion of RC VII.1.23
  - 242.80 portion of RC VIII.1.31
  - 11,788.40 portion of RC VIII.2.26
  - 10,057.50 portion of RC VIII.3.21-22
  - 138,157.45 subtotal above
  - 5526.30 plus FI1 (4% uncollected rate each year, on sub total)
  - 143,510.95<sup>9</sup> total income needed

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8 This total is understated by \$172.17 in order to cohere with the final assessment totals shown in the "[ASSESSMENT RATES](#)" report. That report is the summary of all supplemental reports' subcategorical calculations and therefore arrives at the most accurate totaling, so that should be what is stayed with. As the reader will reasonably understand, this small error/discrepancy could exist in a multitude of rounding math that happens simply by way of a calculator's limitation on decimal places and then such a slightly erred number being multiplied by 311 lots, for example. Or the error could simply be human error. However, this author regards it not worth combing over the days of analysis and calculations under these reports in order to find the error/discrepancy because so many of the calculations involve factors that have variables in them anyway, like how the '4% annual uncollected' rate has no decimal place factors after the whole number of "4", which is a discrepancy, or how the sales tax rate or inflation rates projected into the future are speculative, or how any given road work item and future pricing could be off to some degree because they cannot be perfectly predicted. In the end the discrepancy represents an error rate of 1/10 of one percent, which is admirably acceptable for a projectioning model.

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- Divided by 311 lots = **\$461.45 per Lot annual assessment rate**

#### **Year 2024**

- Expenditures:
  - \$78,969.10 for BAA.
  - 1945.71 for FI2
  - 81.87 for FI3
  - 6228.32 inflation on all above
  - 4472.00 portion of FI5
  - 114.50 portion of RC II.1.31
  - 5648.23 portion of RC II.2.29-32
  - 328.60 portion of RC V.1.41
  - 367.38 portion of RC V.2.29
  - 380.67 portion of RC V.3.23-24
  - 9083.49 portion of RC V.4.31
  - 1035.00 portion of RC V.5.25
  - 1111.75 portion of RC V.6.25
  - 823.33 portion of RC V.7.24
  - 1162.83 portion of RC VI.1.27
  - 501.17 portion of RC VI.2.33
  - 242.80 portion of RC VIII.1.31
  - 11,788.40 portion of RC VIII.2.26
  - 124,285.15 subtotal above
  - 4971.41 FI1 (4% uncollected rate each year, on sub total)
  - 128,999.69<sup>10</sup> total income needed
- Divided by 311 lots = **\$414.79 per Lot annual assessment rate**

#### **Year 2025**

- Expenditures:
  - \$78,969.10 for BAA.
  - 2594.28 for FI2
  - 109.16 for FI3
  - 8479.46 inflation on all above
  - 4584.32 portion of FI5
  - 114.50 portion of RC II.1.31

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<sup>10</sup> This total is understated by \$256.87 in order to cohere with the final assessment totals shown in the “[ASSESSMENT RATES](#)” report. That report is the summary of all supplemental reports’ subcategorical calculations and therefore arrives at the most accurate totaling, so that should be what is stayed with. As the reader will reasonably understand, this small error/discrepancy could exist in a multitude of rounding math that happens simply by way of a calculator’s limitation on decimal places and then such a slightly erred number being multiplied by 311 lots, for example. Or the error could simply be human error. However, this author regards it not worth combing over the days of analysis and calculations under these reports in order to find the error/discrepancy because so many of the calculations involve factors that have variables in them anyway, like how the ‘4% annual uncollected’ rate has no decimal place factors after the whole number of “4”, which is a discrepancy, or how the sales tax rate or inflation rates projected into the future are speculative, or how any given road work item and future pricing could be off to some degree because they cannot be perfectly predicted. In the end the discrepancy represents an error rate of 2/10 of one percent, which is admirably acceptable for a projecting model.

- 5648.23      portion of RC II.2.29-32
  - 328.60      portion of RC V.1.41
  - 367.38      portion of RC V.2.29
  - 9083.49     portion of RC V.4.31
  - 1035.00     portion of RC V.5.25
  - 1111.75     portion of RC V.6.25
  - 1162.83     portion of RC VI.1.27
  - 501.17      portion of RC VI.2.33
  - 242.80      portion of RC VIII.1.31
  - 11,788.40   portion of RC VIII.2.26
  - 126,120.47   subtotal above
  - 5044.82     FI1 (4% uncollected rate each year, on sub total)
  - 131,836.01<sup>11</sup> total income needed
- Divided by 311 lots = **\$423.91 per Lot annual assessment rate**

**Year 2026**

- Expenditures:
  - \$78,969.10    for BAA.
  - 3242.85      for FI2
  - 136.45        for FI3
  - 10,820.60    inflation on all above
  - 4698.72      portion of FI5
  - 114.50        portion of RC II.1.31
  - 5648.23      portion of RC II.2.29-32
  - 328.60      portion of RC V.1.41
  - 367.38      portion of RC V.2.29
  - 9083.49     portion of RC V.4.31
  - 1162.83     portion of RC VI.1.27
  - 501.17      portion of RC VI.2.33
  - 242.80      portion of RC VIII.1.31
  - 11,788.40   portion of RC VIII.2.26
  - 127,105.12   subtotal above
  - 5084.20     FI1 (4% uncollected rate each year, on sub total)
  - 132,038.16<sup>12</sup> total income needed

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11 This total is overstated by \$670.72 in order to cohere with the final assessment totals shown in the "[ASSESSMENT RATES](#)" report. That report is the summary of all supplemental reports' subcategorical calculations and therefore arrives at the most accurate totaling, so that should be what is stayed with. As the reader will reasonably understand, this small error/discrepancy could exist in a multitude of rounding math that happens simply by way of a calculator's limitation on decimal places and then such a slightly erred number being multiplied by 311 lots, for example. Or the error could simply be human error. However, this author regards it not worth combing over the days of analysis and calculations under these reports in order to find the error/discrepancy because so many of the calculations involve factors that have variables in them anyway, like how the '4% annual uncollected' rate has no decimal place factors after the whole number of "4", which is a discrepancy, or how the sales tax rate or inflation rates projected into the future are speculative, or how any given road work item and future pricing could be off to some degree because they cannot be perfectly predicted. In the end the discrepancy represents an error rate of 5/10 of one percent, which is admirably acceptable for a projectioning model.

12 This total is understated by \$151.12 in order to cohere with the final assessment totals shown in the "[ASSESSMENT RATES](#)" report. That report is

- Divided by 311 lots = **\$424.56 per Lot annual assessment rate**

### **Year 2027**

- Expenditures:
  - \$78,969.10 for BAA.
  - 3891.42 for FI2
  - 163.74 for FI3
  - 13,257.74 inflation on all above
  - 114.50 portion of RC II.1.31
  - 5648.23 portion of RC II.2.29-32
  - 328.60 portion of RC V.1.41
  - 367.38 portion of RC V.2.29
  - 9083.49 portion of RC V.4.31
  - 1162.83 portion of RC VI.1.27
  - 501.17 portion of RC VI.2.33
  - 242.80 portion of RC VIII.1.31
  - 113,731.00 subtotal above
  - 4549.24 FI1 (4% uncollected rate each year, on sub total)
  - \$118,280.24 total income needed
- Divided by 311 lots = **\$380.32 per Lot annual assessment rate**

### **Year 2028**

- Expenditures:
  - \$78,969.10 for BAA.
  - 4539.99 for FI2
  - 191.03 for FI3
  - 15,792.88 inflation on all above
  - 114.50 portion of RC II.1.31
  - 5648.23 portion of RC II.2.29-32
  - 328.60 portion of RC V.1.41
  - 367.38 portion of RC V.2.29
  - 9083.49 portion of RC V.4.31
  - 501.17 portion of RC VI.2.33
  - 242.80 portion of RC VIII.1.31

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the summary of all supplemental reports' subcategorical calculations and therefore arrives at the most accurate totaling, so that should be what is stayed with. As the reader will reasonably understand, this small error/discrepancy could exist in a multitude of rounding math that happens simply by way of a calculator's limitation on decimal places and then such a slightly erred number being multiplied by 311 lots, for example. Or the error could simply be human error. However, this author regards it not worth combing over the days of analysis and calculations under these reports in order to find the error/discrepancy because so many of the calculations involve factors that have variables in them anyway, like how the '4% annual uncollected' rate has no decimal place factors after the whole number of "4", which is a discrepancy, or how the sales tax rate or inflation rates projected into the future are speculative, or how any given road work item and future pricing could be off to some degree because they cannot be perfectly predicted. In the end the discrepancy represents an error rate of 1/10 of one percent, which is admirably acceptable for a projectioning model.

- 115,779.17 subtotal above
- 4631.17 FI1 (4% uncollected rate each year, on sub total)
- \$120,410.34 total income needed

- Divided by 311 lots = **\$387.17 per Lot annual assessment rate**

**Year 2029**

- Expenditures:
  - \$78,969.10 for BAA.
  - 5188.56 for FI2
  - 218.32 for FI3
  - 18,428.02 inflation on all above
  - 114.50 portion of RC II.1.31
  - 5648.23 portion of RC II.2.29-32
  - 328.60 portion of RC V.1.41
  - 367.38 portion of RC V.2.29
  - 9083.49 portion of RC V.4.31
  - 501.17 portion of RC VI.2.33
  - 242.80 portion of RC VIII.1.31
  - 119,090.17 subtotal above
  - 4763.61 FI1 (4% uncollected rate each year, on sub total)
  - \$123,853.78 total income needed

- Divided by 311 lots = **\$398.24 per Lot annual assessment rate**

**Year 2030**

- Expenditures:
  - \$78,969.10 for BAA.
  - 5837.13 for FI2
  - 245.61 for FI3
  - 21,166.16 inflation on all above
  - 114.50 portion of RC II.1.31
  - 5648.23 portion of RC II.2.29-32
  - 328.60 portion of RC V.1.41
  - 9083.49 portion of RC V.4.31
  - 501.17 portion of RC VI.2.33
  - 242.80 portion of RC VIII.1.31
  - 122,136.79 subtotal above
  - 4885.47 FI1 (4% uncollected rate each year, on sub total)
  - \$127,022.26 total income needed

- Divided by 311 lots = **\$408.43 per Lot annual assessment rate**

### **Year 2031**

- Expenditures:
  - \$78,969.10 for BAA.
  - 6485.70 for FI2
  - 272.90 for FI3
  - 24,011.30 inflation on all above
  - 114.50 portion of RC II.1.31
  - 5648.23 portion of RC II.2.29-32
  - 328.60 portion of RC V.1.41
  - 9083.49 portion of RC V.4.31
  - 501.17 portion of RC VI.2.33
  - 242.80 portion of RC VIII.1.31
  - 125,657.79 subtotal above
  - 5026.31 FI1 (4% uncollected rate each year, on sub total)
  - \$130,684.10 total income needed
  
- Divided by 311 lots = **\$420.21 per Lot annual assessment rate**

### **Year 2032**

- Expenditures:
  - \$78,969.10 for BAA.
  - 7134.27 for FI2
  - 300.19 for FI3
  - 26,966.44 inflation on all above
  - 5648.23 portion of RC II.2.29-32
  - 328.60 portion of RC V.1.41
  - 501.17 portion of RC VI.2.33
  - 119,848.00 subtotal above
  - 4793.92 FI1 (4% uncollected rate each year, on sub total)
  - \$124,641.92 total income needed
  
- Divided by 311 lots = **\$400.78 per Lot annual assessment rate**

### **Year 2033**

- Expenditures:
  - \$78,969.10 for BAA.
  - 7782.84 for FI2
  - 327.48 for FI3
  - 30,032.58 inflation on all above
  - 328.60 portion of RC V.1.41
  - 501.17 portion of RC VI.2.33

- 117,668.77 subtotal above
- 4706.75 FI1 (4% uncollected rate each year, on sub total)
- \$122,375.52 total income needed

- Divided by 311 lots = **\$393.49 per Lot annual assessment rate**

#### **Year 2034**

- Expenditures:
  - \$78,969.10 for BAA.
  - 8431.41 for FI2
  - 354.77 for FI3
  - 33,215.72 inflation on all above
  - 328.60 portion of RC V.1.41
  - 121,299.60 subtotal
  - 4851.98 FI1 (4% uncollected rate each year, on sub total)
  - \$126,151.58 total income needed

- Divided by 311 lots = **\$405.63 per Lot annual assessment rate**

#### **Year 2035**

- Expenditures:
  - \$78,969.10 for BAA.
  - 9079.98 for FI2
  - 382.06 for FI3
  - 36,519.86 inflation on all above
  - 328.60 portion of RC V.1.41
  - 125,279.60 subtotal above
  - 5011.18 FI1 (4% uncollected rate each year, on sub total)
  - \$130,290.78 total income needed

- Divided by 311 lots = **\$418.94 per Lot annual assessment rate**

#### **Year 2036**

- Expenditures:
  - \$78,969.10 for BAA.
  - 9728.55 for FI2
  - 409.35 for FI3
  - 39,947.00 inflation on all above
  - 328.60 portion of RC V.1.41
  - 129,382.60 subtotal
  - 5175.30 FI1 (4% uncollected rate each year, on sub total)
  - \$134,557.90 total income needed

- Divided by 311 lots = **\$432.66 per Lot annual assessment rate**

**Year 2037**

- Expenditures:
  - \$78,969.10 for BAA.
  - 10,377.12 for FI2
  - 436.64 for FI3
  - 43,500.14 inflation on all above
  - 328.60 portion of RC V.1.41
  - 133,611.60 subtotal above
  - 5344.46 FI1 (4% uncollected rate each year, on sub total)
  - \$138,956.06 total income needed
- Divided by 311 lots = **\$446.80 per Lot annual assessment rate**

**Year 2038**

- Expenditures:
  - \$78,969.10 for BAA.
  - 11,025.69 for FI2
  - 463.93 for FI3
  - 47,185.28 inflation on all above
  - 328.60 portion of RC V.1.41
  - 137,972.60 subtotal above
  - 5518.90 FI1 (4% uncollected rate each year, on sub total)
  - \$143,491.50 total income needed
- Divided by 311 lots = **\$461.39 per Lot annual assessment rate**

**Year 2039**

- Expenditures:
  - \$78,969.10 for BAA.
  - 11,674.26 for FI2
  - 491.22 for FI3
  - 51,004.42 inflation on all above
  - 328.60 portion of RC V.1.41
  - 142,467.60 subtotal above
  - 5698.70 FI1 (4% uncollected rate each year, on sub total)
  - \$148,166.30 total income needed
- Divided by 311 lots = **\$476.41 per Lot annual assessment rate**

**Year 2040**

- Expenditures:
  - \$78,969.10 for BAA.
  - 12,322.83 for FI2
  - 518.51 for FI3
  - 54,961.56 inflation on all above
  - 328.60 portion of RC V.1.41
  - 147,100.60 subtotal above
  - 5884.02 FI1 (4% uncollected rate each year, on sub total)
  - \$152,984.62 total income needed
  
- Divided by 311 lots = **\$491.91 per Lot annual assessment rate**

**Year 2041**

- Expenditures:
  - \$78,969.10 for BAA.
  - 12,971.40 for FI2
  - 545.80 for FI3
  - 59,062.70 inflation on all above
  - 328.60 portion of RC V.1.41
  - 151,877.60 subtotal above
  - 6075.10 FI1 (4% uncollected rate each year, on sub total)
  - \$157,952.70 total income needed
  
- Divided by 311 lots = **\$507.89 per Lot annual assessment rate**

**Year 2042**

- Expenditures:
  - \$78,969.10 for BAA.
  - 13,619.97 for FI2
  - 573.09 for FI3
  - 63,310.84 inflation on all above
  - 328.60 portion of RC V.1.41
  - 156,801.60 subtotal above
  - 6272.06 FI1 (4% uncollected rate each year, on sub total)
  - \$163,073.66 total income needed
  
- Divided by 311 lots = **\$524.35 per Lot annual assessment rate**

**Year 2043**

- Expenditures:
  - \$78,969.10 for BAA.

- 14,268.54 for FI2
  - 600.38 for FI3
  - 67,710.98 inflation on all above
  - 161,549.00 subtotal above
  - 6461.96 FI1 (4% uncollected rate each year, on sub total)
  - \$168,010.96 total income needed
- Divided by 311 lots = **\$540.23 per Lot annual assessment rate**

**Year 2044**

- Expenditures:
    - \$78,969.10 for BAA.
    - 14,917.11 for FI2
    - 627.67 for FI3
    - 72,266.12 inflation on all above
    - 166,780.00 subtotal above
    - 6671.20 FI1 (4% uncollected rate each year, on sub total)
    - \$173,451.20 total income needed
- Divided by 311 lots = **\$557.72 per Lot annual assessment rate**

**Year 2045**

- Expenditures:
    - \$78,969.10 for BAA.
    - 15,565.68 for FI2
    - 654.96 for FI3
    - 76,983.26 inflation on all above
    - 172,173.00 subtotal above
    - 6886.92 FI1 (4% uncollected rate each year, on sub total)
    - \$179,059.92 total income needed
- Divided by 311 lots = **\$575.76 per Lot annual assessment rate**

**Year 2046**

- Expenditures:
  - \$78,969.10 for BAA.
  - 16,214.25 for FI2
  - 682.25 for FI3
  - 81,864.10 inflation on all above
  - 177,729.70 subtotal above
  - 7109.19 FI1 (4% uncollected rate each year, on sub total)
  - \$184,838.88 total income needed

- Divided by 311 lots = **\$594.34 per Lot annual assessment rate**

**Year 2047**

- Expenditures:
  - \$78,969.10 for BAA.
  - 16,862.82 for FI2
  - 709.54 for FI3
  - 86,914.54 inflation on all above
  - 183,456.00 subtotal above
  - 7338.24 FI1 (4% uncollected rate each year, on sub total)
  - \$190,794.24 total income needed
- Divided by 311 lots = **\$613.49 per Lot annual assessment rate**

**Year 2048**

- Expenditures:
  - \$78,969.10 for BAA.
  - 17,511.39 for FI2
  - 736.83 for FI3
  - 92,141.68 inflation on all above
  - 189,359.00 subtotal above
  - 7574.36 FI1 (4% uncollected rate each year, on sub total)
  - \$196,933.36 total income needed
- Divided by 311 lots = **\$633.23 per Lot annual assessment rate**

**Year 2049**

- Expenditures:
  - \$78,969.10 for BAA.
  - 18,159.96 for FI2
  - 764.12 for FI3
  - 97,549.82 inflation on all above
  - 195,443.00 subtotal above
  - 7817.72 FI1 (4% uncollected rate each year, on sub total)
  - \$203,260.72 total income needed
- Divided by 311 lots = **\$653.57 per Lot annual assessment rate**

**Year 2050**

- Expenditures:
  - \$78,969.10 for BAA.

- 18,808.53 for FI2
  - 791.41 for FI3
  - 103,142.96 inflation on all above
  - 201,712.00 subtotal above
  - 8068.48 FI1 (4% uncollected rate each year, on sub total)
  - \$209,780.48 total income needed
- Divided by 311 lots = **\$674.54 per Lot annual assessment rate**

**Year 2051**

- Expenditures:
    - \$78,969.10 for BAA.
    - 19,457.17 for FI2
    - 818.70 for FI3
    - 108,928.03 inflation on all above
    - 208,173.00 subtotal above
    - 8326.92 FI1 (4% uncollected rate each year, on sub total)
    - \$216,499.92 total income needed
- Divided by 311 lots = **\$696.14 per Lot annual assessment rate**

**III. Minimum Reserve Fund Calculation**

This is a 'cash-flow' issue (having liquid funds available for expenses at a given moment) and not an 'added expense' issue. Each year there will be deposits and withdrawals into and from the HOA reserve/savings accounts to cover all variations from year to year in HOA expenses, those expenses collectively enumerated as [Reserve Components](#)<sup>13</sup>, [Fund Items](#) and [Averaged & Adjusted Annual P&L Expenditure Categories](#).

So what about making sure enough of that funding is in reserve *ahead of time* to be able to spontaneously pay for certain time-unpredictable events, like extreme snow plowing years, extreme emergency road repairs from watershedding, or unforeseeable higher legal-risk HOA activities, etc? Following is the analysis:

- a. **Adjusting for worst-case snow plowing.** Per this [supplemental report](#) the averaged and adjusted annual plowing expenditure at 2021 rates is \$17,863.75, and the highest plowing expenditure (2017/2018) was \$31,483.07; that's a difference of \$13,619.32. It seems unlikely that both a record snow fall year and a record sanding year will happen at the same time for two reasons this author can cite: 1) In 24 years of living here I have not witnessed extremes of the two conditions simultaneously, and 2) The weather conditions needed to create extremity

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<sup>13</sup> Recall that “VOTE ITEM #2: 5-Years Assessment Rates for Critical Capital Improvements (vote to fund Reserve Components) did not pass in the vote of the membership.

for either one are not quite the same, and only one weather condition can exist at a time. So I posit that it is wise to scale back 'the worst' simultaneously-occurring plowing and sanding to  $\frac{3}{4}$  of their individual 'worst beyond averaged', which for plowing would be **\$10,214.49** ( $\frac{3}{4}$  of \$13,619.32).

**b. Adjusting for worst-case sanding.** Per this [supplemental report](#) the averaged and adjusted annual sanding expenditure at 2021 rate was \$2508.35, and the highest sanding expenditure (2020/2021) was \$12,032.40; that's a difference of \$9524.05. So for the same reasoning in Plowing above, I posit scaling back 'worst beyond averaged' sanding to  $\frac{3}{4}$  also, which would be **\$7143.04** ( $\frac{3}{4}$  of \$9524.05).

**c. Adjusting for worst-case watershed erosion event/season.** The best discernible answer to this is little empirically-based because it was not until 2019 that a board started tracking "Emergency Repairs" expenditures as a distinct accounting category in the P&Ls, so there is only one complete year of statistics about this, which averaged and adjusted for inflation to 2021 rates would be \$5683.00. However, this author has witnessed additional historical events about this over the 24 years of HOA function, particularly of note: In 2017 I oversaw the performance of approximately \$8500 worth of emergency repairs, and I am aware that in about 2012 there was an approximately \$12,000 emergency erosion repair event. Adjusting the \$12,000 event from 2012 for inflation would therefore be **\$14,030.00**.

**d. Other observations about roads.** The Ranch road system has experienced a couple of other likely 'worst case' weather events which resulted in no repair costs beyond the scope of the discussions above.

- 1997 was 'record snow fall for 100 years' in Okanogan county, so watershedding was strong and the roads withstood it without the need for emergency repair.
- At about 2004 there was a localized cloudburst of a most extreme level (it made the national news; 4" of rain fell in about an hour in a 1 square mile area) that caused an approximately 10' high wall of water to challenge the largest creek culvert system on the Ranch (base of West Corral Drive). The culvert and crossing held without catastrophic damage. Regarding this same crossing, in 2017 there was an extreme snow melt season that caused continuous water flow through that same culvert up to about 90% capacity of the culvert, and all was fine.
- At about year 2000 a beaver dam broke upstream of the Nine Mile creek culvert and crossing on Mallard Drive in Division 5. The resulting rush of water overwhelmed the culvert capacity and therefore the road at the crossing but did not cause structural damage. As a result the developer installed a doubled amount of culvert capacity in the crossing.

**e. Analysis regarding other possible critical admin expense cash flow anomalies/spikes in the P&L.** In subsections a-c above we addressed the major spike potentials in the "[Averaged & Adjusted Annual P&L Expenditure Categories](#)". The following are several others (smaller ones) that have potential for spikes or variations for consideration:

- Regarding "6125 Office Supplies and Postage" and "6140 Postage and Delivery". In a very active HOA year, including with strong membership participation and action, this expense category could suddenly increase. It is plausible to consider that expenditures associated with additional mailings and votes could double in such an active year; that would add **\$2566.00**. These costs are not regarding subjects that could easily be deferred; there's a

lot of legal force to having to respond to communications and voting needs as subjects arise.

- Regarding “6185 Liability Insurance”. The HOA appears to have entered the zone that typically accompanies forward-moving active HOAs, which means the potential for increase of legal risks (and therefore legal suits) increases. In both 2019 and 2020 each year saw a frivolous legal suit against the HOA from different members, which the current HOA insurance firm paid for most of the defense of. As we all know, insurance companies don't like to pay out on claims for very long without increasing premiums on who their accounts they see as higher or increasing risk, and the insurance firm has not yet increased their premium to our HOA. It would be prudent to expect a decent chance of some 70% higher premium than the current \$1328.00 (an increase of **\$929.60**) coming sooner than later, and of course the HOA will have to pay it immediately to avoid lapse in insurance protection.
- Regarding “6280 Attorney Fees”. For the same reasons as discussed immediately above, this category has a chance of sudden and relatively significant spike and would have to be acted upon without deference. Some rough statistics for consideration:
  - A somewhat complicated and well-vetted CCR enforcement process in 2019 cost the HOA about \$4000.00. This included legal research and counsel on the issue and several back-and-forth interactions with the opposing attorney. That process brought the situation right up to the point of being ready to file a suit; filing a suit can often be deferred for enough time to seek a special assessment vote from the membership, but up to that point is typical BOD discretionary-level activity.
  - An estimate received through legal counsel in 2020 suggested that a CCR-forced arbitration process would cost about \$10,000.

This author is inclined to think that the scope costs for either of the examples above would likely capture most unpredictable spikes in this expense category, so let's average them out to suggest prudently allowing **\$7000** in funds available.

If we add up the bolded amounts in subsections a-e above they total \$41,883.13 at 2021 dollar values. Now let's consider adjustments from there:

- It is very plausible that all of the events above could happen in the same year, so that leaves the total where it is at \$41,883.13.
- How plausible is it that any of those spikes could happen more than in consecutive years and also before additional compensating funding could be secured through either a special assessment or increased annual assessment? I suggest a fairly small chance, maybe 20%, which would add \$8376.63 for a total now of \$50,259.76.

So the base minimum reserve fund amount for 2021 is \$50,259.76. But for 2022 and years thereafter that will be different because of adding in the considerations of sections IV and V below.

#### ***IV. Increasing Reserve Fund Balance Due To Inflation***

In year 2021 the goal is to start with \$50,259.76 (Base) in the reserve fund, but we need to increase

that balance in the reserve fund each year thereafter to compensate for annual inflation, for (30) years. The inflation value for all expenditures each year is already worked in to the annual assessment rates shown in this report, so once again we've already accounted for collecting the inflation value annually through assessments. The columns below show the annual inflation and how it increases the minimum reserve fund need annually:

<u>year</u>	<u>inflation value on Base \$50,259.76</u>	<u>add each year</u>	<u>total inflated Base</u>
2022	1256.00	1256.00	51,515.00
2023	2544.00	1288.00	52,803.00
2024	3864.00	1320.00	54,123.00
2025	5218.00	1354.00	55,477.00
2026	6603.00	1385.00	56,863.00
2027	8026.00	1423.00	58,285.00
2028	9483.00	1457.00	59,742.00
2029	10,977.00	1494.00	61,236.00
2030	12,508.00	1531.00	62,767.00
2031	14,077.00	1569.00	64,336.00
2032	15,685.00	1608.00	65,944.00
2033	17,334.00	1649.00	67,593.00
2034	19,024.00	1690.00	69,283.00
2035	20,756.00	1732.00	71,015.00
2036	22,531.00	1775.00	72,790.00
2037	24,351.00	1820.00	74,610.00
2038	26,216.00	1865.00	76,475.00
2039	28,128.00	1912.00	78,387.00
2040	30,088.00	1960.00	80,347.00
2041	32,096.00	2008.00	82,355.00
2042	34,155.00	2059.00	84,414.00
2043	36,265.00	2110.00	86,524.00
2044	38,429.00	2164.00	88,688.00
2045	40,646.00	2217.00	90,905.00
2046	42,918.00	2272.00	93,177.00
2047	45,248.00	2330.00	95,507.00
2048	47,635.00	2387.00	97,894.00
2049	50,083.00	2448.00	100,342.00
2050	52,591.00	2508.00	102,850.00
2051	55,163.00	2572.00	105,422.00

***V. Thirty Years of Annual Projections: Reserve Fund Balances Considering the Effect of Reserve Components & Annual Inflation***

As per RCW64.38.070, the HOA is required to identify “reserve components<sup>14</sup>” and each of their

<sup>14</sup> As defined at RCW64.38.010(17), “Reserve component” means a common element [like a predicted future road section upgrade] whose cost of

expenses, and determine a schedule of deposits in and withdrawals from the reserve fund that matches with a schedule of when those reserve components are anticipated to need to be executed for a (30) year period. Even though the membership voted in June 2021 not to fund the [Reserve Components](#), our HOA is still required by state law to create the reporting described in this paragraph and as shown below. So the figures in the columns below show yearly changes to the reserve fund because of adding inflation (per section IV above) and also for income and expenditures for all [Reserve Components](#) as though the HOA had indeed passed the vote in 2021 to fund the Reserve Components and actually execute them in the years that the [Reserve Components](#) report scheduled out.

The reader should again be reminded that the annual figures shown in the “balance” column below reflect as though every year there will be a perfect averaging of expenses related to weather-caused road repairs, which we have repeatedly discussed is of course not what would happen in real life. So actual annual fluctuations in yearly HOA expenditures ([Averaged & Adjusted Annual P&L Expenditure Categories](#)) would cause the “balance” in the column below to vary as weather influences road maintenance expenditures.

The subject of 'reserve fund' below does not address within what physical account(s) the Board Of Directors chooses to place 'reserve funds', which could exist in portions simultaneously in savings and checking accounts and other deposit accounts; it just addresses clarifying what fund amounts need to be 'saved' until the dates they will need to be expended, giving directors an idea of how to manage this 'savings' in a solvent manner. So the “credits” shown below are fund amounts that should be saved from income each year, and “debits” are fund amounts that are reductions in savings due to paying for the [Reserve Components items](#) (RC) as shown in each year in subsection II.2 above. Also, note that the amounts for RC debits and credits below include having added 4% for the annual average uncollected past-due rate.

<b>year<sup>15</sup></b>	<b>credits: inflation on base</b>	<b>credits: RC items<sup>16</sup></b>	<b>debits: RC expenditures<sup>17</sup></b>	<b>balance</b>
				\$50,259.76
2021			<17,143.88>	33,115.88
2022	1256.00	55,834.65	<10,459.80>	79,746.73
2023	1288.00	49,407.65	<14,117.84>	116,324.54
2024	1320.00	32,588.15	<3162.64>	147,070.05
2025	1354.00	31,384.15	<8930.48>	170,877.72
2026	1385.00	29,237.40	<61,299.68>	140,200.44
2027	1423.00	17,449.00	<7256.08>	151,816.36
2028	1457.00	16,286.17		169,559.53
2029	1494.00	16,286.17	<19,210.50>	168,129.20
2030	1531.00	15,918.79	<16,153.94>	169,425.05

maintenance, repair, or replacement is infrequent, significant, and impractical to include in an annual budget.”

15 For example, “year 2021” means 'fiscal year 2021/2022’.

16 These numbers add up to the totaled income amounts for RC items for each year as shown in subsection II.2 above.

17 These numbers are the sums of RC expenditures scheduled for the year the column specifies. All RC items can be viewed at section II in the [Reserve Components](#) report. The reader must scan through each item in section II of that report to discover which RC items are scheduled for execution for any given year and then add those up (plus 4% for uncollected) to arrive at the total shown for that year in the “**debits: RC expenditures**” column above.

2031	1569.00	15,918.79	<111,812.99>	75,099.85
2032	1608.00	6478.00	<16,153.94>	67,031.91
2033	1649.00	829.77	<6254.56>	63,256.12
2034	1690.00	328.60		65,274.72
2035	1732.00	328.60		67,335.32
2036	1775.00	328.60		69,438.92
2037	1820.00	328.60		71,587.52
2038	1865.00	328.60		73,781.12
2039	1912.00	328.60		76,021.72
2040	1960.00	328.60		78,310.32
2041	2008.00	328.60	<6834.88>	73,812.04
2042	2059.00	328.60		76,199.64
2043	2110.00			78,309.64
2044	2164.00			80,473.64
2045	2217.00			82,690.64
2046	2272.00			84,962.64
2047	2330.00			87,292.64
2048	2387.00			89,679.64
2049	2448.00			92,127.64
2050	2508.00			94,635.64
2051	2572.00			97,207.64

## **VI. Reserve Fund Factual Statements**

RCW 64.38.070 requires a variety of annual clarification statements to be made regarding the information herein. Some of those requirements have been met in sections above; otherwise the following statements complete the requirements for year 2022 (except those statements required to be supplied with the annual budget):

- This report and supplemental reports meet the requirements of RCW64.38.070.
- This report meets with “Level III” reporting requirements in [RCW64.38.070.\(2\)\(c\)\(iii\)](#).
- The reserve fund balance on 3/01/22 is cumulatively \$54,047, which includes funds in the following accounts:
  - \$13,362.00 in savings
  - \$36,368.00 in CD
  - \$4317.00 in checking
- Regarding what percentage the reserve fund is funded; there are two considerations for this:
  - With respect to the requirements at CCRs, Article IV, Section 4, the reserve fund on 3/1/22

is 100% funded, according to the calculations and standards imparted in this and other linked reports.

- With respect to the requirements at RCW64.38.070: That statute limits the reserve fund to include only the items called “[Reserve Components](#)”, described as items “...major maintenance, repair, and replacement costs, whose infrequent and significant nature make them impractical to be included in an annual budget”, enumerated in subsection II.2 above. As stated repeatedly above, funding for the Reserve Components was voted down by the membership in June 2021 so at this moment there is no funding in the current reserve fund provided for any of those items.
- Statements about the status of various current Special Assessments:
  - On August 31, 2019 A Special Assessment of \$242.00 per Lot was passed by a vote of the membership which provided the process for funding the purchase of:
    - a road gravel rake (for road maintenance)
    - replenishment topcoat gravel, designed to make up for that portion of road gravel that had been worn away but not yet replenished between the time span of 1996 and 2017.

The rake was purchased in spring 2020, and throughout 2020 and 2021 much replenishment gravel was placed. Here are the income and expenditures balances for gravel and the rake as of 3/6/22:

- \$71,814.00 total collected income of the \$73,568.00 total billed.
- \$18,861.00 spent on the rake, the rake being fully purchased/paid for.
- \$53,539.00 spent so far on gravel
- On June 20, 2021 a one-time Special Assessment of \$35.37 per Lot was passed for a complete CCR-required court arbitration process against the owner of Lt 47, Division 1 for various CCR violations, income and expenditures as of 3/1/22 as follows:
  - \$9868.00 total collected.
  - \$2569.00 total funds spent.
- On June 20, 2021 a one-time Special Assessment of \$38.55 per Lot was passed for the construction of a sanding facility for winter sanding of icy roads, income and expenditures as of 3/1/22 as follows:
  - \$10,755.00 total collected.
  - \$350.00 total funds spent.

At this point there are no other special assessments planned to be brought for membership vote.

- Pursuant to RCW64.38.070(3) the following statement is required to be included with this report: “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.”