JEFF SAMDAL
&ASSOCIATES

PROFESSIONAL RESERVE STUDY

LEVEL 3 UPDATE

Raft Island Homeowners Association

Raft Island, Gig Harbor, WA 98335

For:

Raft Island Homeowners Association
c/o Shirelle Schaefer, Property Manager
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1.0 EXECUTIVE SUMMARY

1.1 DISCLOSURES REQUIRED BY STATE OF WA RCW 64.90.550

The undersigned makes the following disclosures required by RCW 64.90.550 to establish that this Reserve Study meets all requirements of the Washington Uniform Common Interest Ownership Act, Chapter 64.90 RCW:

a. This Reserve Study was prepared with the assistance of a reserve study professional and that professional was independent;

b. This Reserve Study includes all information required by RCW 64.90.550 Reserve Study – Contents; and

c. 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 the association to (1) defer major maintenance, repair, or replacement, (2) increase future reserve contributions, (3) borrow funds to pay for major maintenance, repair, or replacement, or (4) impose special assessments for the cost of major maintenance, repair, or replacement.

1.2 GENERAL DESCRIPTION OF PROPERTY

Raft Island is located in Henderson Bay of South Puget Sound in the suburban area west of Gig Harbor. The island is 201.86 acres and contains 226 single family lots, including a church camp in this Association (6 lots). We understand that the property was constructed in the 1950s. The property consists of approximately 3.5 miles of new private asphalt roads, a bridge to access the island, a tennis court, and two community beaches and a community dock.

There are no buildings that are the responsibility of the Homeowners Association.

Like all properties, this property will require capital maintenance. We have itemized areas of capital maintenance that we anticipate over the next thirty (30) years along with estimated costs and estimated schedule of repair/replacement.

1.3 IMMEDIATE NECESSARY CAPITAL EXPENDITURES

Table 1.3 below shows the items that are in need of action immediately or within the near future. This is a summary; all tasks are explained in greater detail in Section 3.0 Physical Analysis.

Table 1.3: Summary of Immediate Necessary Capital Expenditures

Component	Cost	Urgency
Resurface dock decking with synthetic decking	$10,000	In progress
Rebuild the dock and pilings	$90,000	In progress

2.0 RESERVE STUDY BACKGROUND

2.1 PURPOSE OF THIS LEVEL 3 RESERVE STUDY

The primary purpose of this Level 3 Reserve Study is to provide the Association with a planning and budgeting tool to adequately maintain the property 30 years into the future without unexpected special assessments. This study is intended to provide the Association with an understanding of their property and to bring to light necessary immediate expenditures and reasonably anticipated future capital expenses that should be addressed.

Associations have a responsibility to their members to adequately maintain their properties and our Reserve Studies provide our clients with the tools to implement capital maintenance. When small issues and maintenance items are addressed prior to becoming larger problems, there is typically a significant overall savings for a property owner. Properly maintained properties maintain higher property values than those with an abundance of deferred maintenance.

An additional benefit of this Reserve Study is that it is one of the qualifications required for Associations to obtain FHA approval (which is very helpful in selling or refinancing individual units). Many other sources of funding are also beginning to require them as well.

2.2 WASHINGTON STATE RCW 64.90.550

As of July 1, 2018, WA State RCW 64.90.550 defined a Reserve Study in WA State as the following:

(1) Any reserve study is supplemental to the association's operating and maintenance budget.

(2) A reserve study must include:

(a) A reserve component list, including any reserve component, the replacement cost of which exceeds one percent of the annual budget of the association, excluding contributions to the reserves for that reserve component. If one of these reserve components is not included in the reserve study, the study must explain the basis for its exclusion. The study must also include quantities and estimates for the useful life of each reserve component, the remaining useful life of each reserve component, and current major replacement costs for each reserve component;

(b) The date of the study and a disclosure as to whether the study meets the requirements of this section;

(c) The following level of reserve study performed:

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

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

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

This reserve study meets the qualifications of WA State RCW 64.90.550

(d) The association's reserve account balance;

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

(f) Special assessments already implemented or planned;

(g) Interest and inflation assumptions;

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

(i) A recommended reserve account contribution rate for a full funding plan to achieve one hundred percent fully funded reserves by the end of the thirty-year study period, a recommended reserve account contribution rate for a baseline funding plan to maintain the reserve account balance above zero throughout the thirty-year study period without special assessments, and a reserve account contribution rate recommended by the reserve study professional;

(j) A projected reserve account balance for thirty years based on each funding plan presented in the reserve study;

(k) A disclosure on whether the reserve study was prepared with the assistance of a reserve study professional, and whether the reserve study professional was independent; and

(l) A statement of the amount of any current deficit or surplus in reserve funding expressed on a dollars per unit basis. The amount is calculated by subtracting the association's reserve account balance as of the date of the study from the fully funded balance, and then multiplying the result by the fraction or percentage of the common expenses of the association allocable to each unit; except that if the fraction or percentage of the common expenses of the association allocable vary by unit, the association must calculate any current deficit or surplus in a manner that reflects the variation.

(3) A reserve study must also include the following disclosure:

"This reserve study should be reviewed carefully. It may not include all common and limited common element components that will require major maintenance, repair, or replacement in future years, and may not include regular contributions to a reserve account for the cost of such maintenance, repair, or replacement. The failure to include a component in a reserve study, or to provide contributions to a reserve account for a component, may, under some circumstances, require the association to (1) defer major maintenance, repair, or replacement, (2) increase future reserve contributions, (3) borrow funds to pay for major maintenance, repair, or replacement, or (4) impose special assessments for the cost of major maintenance, repair, or replacement."

2.3 SCOPE AND METHODOLOGY

Our Level 2 Reserve Study was finalized on April 4, 2019 at this property.

This report is an off-site update of that report based solely on the information provided to us by Shirelle Schaefer on February 12, 2020.

Financial Analysis: We performed an analysis on the financial needs and current status at the property. The financial analysis provides the following:

- Forecasts the anticipated Capital Reserves necessary at the property over the next 30 years.
- Projects future Capital Reserve balances and determines the appropriate funding levels necessary.
- Reviews the Association's current funding plan and current financial position.
- Provides our recommended annual contribution to the Reserve Fund to maintain Full Funding.

2.4 SOURCES OF INFORMATION

The following people provided us information for this study:

- Shirelle Schaefer, Property Manager, HOA Community Solutions

2.5 DEFINITIONS

Assumed Inflation - Our assumed inflation rate is our best guess of the long term average of the inflation rate over the next thirty years; it is not based on the current Consumer Price Index (CPI). Our number is much closer to the historical average of the CPI over the previous 25 years.

Capital Reserves Balance - Actual or projected funds as of a particular point in time that the Association has identified for use to defray the future repair or replacement of those major components which the Association is obligated to maintain. Also known as reserves, reserve accounts, cash reserves.

Component - An individual line item in the Reserve Study developed or updated in the physical analysis. These elements form the building blocks of the Reserve Study. Components typically are: 1) Association responsibility, 2) with limited useful life expectancies, 3) predictable remaining useful life expectancies, 4) above a minimum threshold cost, and 5) as required by local codes.

Component Inventory - The task of selecting and quantifying reserve components. This task is accomplished through onsite visual observations, review of Association design and organizational documents, and a review of established Association precedents.

Deficit - An actual (or projected) reserve balance less than the fully funded balance. The opposite would be a surplus.

Effective Age - The difference between useful life and remaining useful life. Not always equivalent to chronological age, since some components age irregularly. Used primarily in computation.

Financial Analysis - The portion of a Reserve Study where current status of the reserves (measured as cash or percent funded) and a recommended reserve contribution rate (reserve funding plan) are derived. The financial analysis is one of the two parts of a Reserve Study.

Fully Funded - 100% funded. When the actual (or projected) reserve balance is equal to the fully funded balance.

Fully Funded Balance (FFB) - Total accrued depreciation. An indicator against which actual (or projected) reserve balance can be compared. In essence, it is the reserve balance that is proportional to the current Repair/replacement cost and the fraction of life "used up". This number is calculated for each component, them summed together for an Association total.

Percent Funded - The ratio, at a particular point of time (typically the beginning of the fiscal year), of the actual (or projected) reserve balance to the fully funded balance, expressed as a percentage.

Special Assessment - An assessment levied on the members of an Association in addition to regular assessments. Special assessments are often regulated by governing documents or local statutes.

2.6 FREQUENTLY ASKED QUESTIONS ABOUT RESERVE STUDIES

What is a reserve study?

Reserve studies are comprehensive reports that are used as budget planning tools that will assess the current financial health of the reserve fund as well as create a plan for future funding to offset anticipated major future common area expenditures.

According to *Community Association Institute's Best Practices, Reserve Studies/Management*: "There are two components of a reserve study—a physical analysis and a financial analysis. During the physical analysis, a reserve provider evaluates information regarding the physical status and repair/replacement cost of the association's major common area components. To do so, the provider conducts a component inventory, a condition assessment, and life and valuation estimates. A financial analysis assesses only the association's reserve balance or fund status (measured in cash or as percent funded) to determine a recommendation for an appropriate reserve contribution rate (funding plan)."

What are the different types of reserve studies?

Reserve studies fit into one of three categories: Full; Update with Site Visit; and Update with No Site Visit. They are frequently called Level 1, Level 2, and Level 3 respectively (as defined by Washington State RCW 64.90.550).

> **Level 1: A full reserve study** – the reserve provider conducts a component inventory, a condition assessment (based upon on-site visual observations), and life and valuation estimates to determine both a fund status and a funding plan. They typically extend 30-years. A full reserve study must be in place before a Level 2 or Level 3 can take place.
>
> **Level 2: An update with site visit (on-site review)** -- the reserve study provider conducts a component inventory (verification only, not quantification), a condition assessment (based on on-site visual observations), and life and valuation estimates to determine both a fund status and a funding plan. A Level 2 update is performed every third year, with the first one scheduled 3 years after the Level 1 was completed.
>
> **Level 3: An update with no site visit (off-site review)** -- the reserve study provider conducts life and valuation estimates to determine a fund status and a funding plan. A Level 3 update is performed annually, except in years when a Level 1 or Level 2 has been conducted.

When should associations obtain reserve studies?

Most association experts would agree that an initial full 30-year reserve study should be conducted sooner rather than later if one is not already in place. They are typically updated annually after that to account for things such as inflation and any adjustments in funding levels, budgets, repairs or replacements.

If you follow Washington State RCW 64.90.555 (which we recommend), your reserve study schedule would look like this:

- Year 1: Level 1 full 30-year study
- Years 2, 3: Level 3 annual updates
- Year 4: Level 2 update with site visit
- Years 5, 6: Level 3 annual updates
- Year 7: Level 2 update with site visit

The cycle of Level 2 and Level 3 updates continues indefinitely. A Level 1 full study is not necessary after year 1.

What are the benefits of a Reserve Study?

Benefits of reserve studies, in short, include improved property maintenance (and therefore value) as well as complying with the law. In more detail:

Complying with Washington State law

View the rules regarding Reserve Studies and Reserve Accounts here:

http://app.leg.wa.gov/RCW/default.aspx?cite=64.90 - Sections 535, 540, 545, 550, 555, and 560

Fulfilling lender requirements (such as FHA)

Many lenders are requiring up-to-date reserve studies that indicate adequate financial health before they lend. Having a reserve study in place that shows a healthy funding plan before a homeowner finds a buyer could save significant time in the closing process.

Help maintain the property's value and appearance

A reserve study helps maintain the property's value and the property owner's investment. By identifying and budgeting for future repairs or replacement (anticipated capital expenditures), the property's common elements continue to look attractive and well-kept, adding to the community's overall quality of life. Many features, when properly maintained, can also benefit from an extended lifespan resulting in overall cost savings to the owners. Well maintained properties almost always have higher resale values than those that have been neglected.

Establishing sound financial planning and budget direction

A comprehensive reserve study lays out a schedule of anticipated major repairs or replacements to common property elements and applies cost estimates to them. It typically spans a 30-year period, and will serve as a financial planning tool for the association to use when determining homeowners dues and contributions to the reserve fund.

Reducing the need for special assessments

An association that has properly implemented their reserve study will strategically collect fees over time from homeowners (via monthly dues) rather than need large sums of cash unexpectedly (special assessments). Therefore, the need for special assessments should be minimalized because expenses have already been planned for and the funds exist when needed.

Fulfilling the board of directors' fiduciary responsibility

Board members of community associations have a fiduciary responsibility to their members. Directors are legally bound to use sound business judgment in guiding the association and cannot ignore major capital expenditures or eliminate them from the budget.

3.0 PHYSICAL ANALYSIS

3.1 COMPONENT ASSESSMENT AND VALUATION

The component assessment and valuation of the itemized capital expenses on this property was done by providing our opinion of Useful Life, Remaining Useful Life, and Repair or Replacement Costs for the Reserve components. Table 3.1A lists this component inventory, and is based on the information that we were provided and on onsite visual observations.

The remainder of "Section 3.0 Physical Analysis" details each of the items in Table 3.1A using narratives and photos. They are meant to be read together.

Table 3.1B is a summary of expenses, grouped according to their expense category. Chart 3.1B is a pie chart illustrating the same.

Table 3.1A Key:

Quantity - The total quantity of each component.

Units - SF = Square Feet SY = Square Yards LF = Lineal Feet

EA = Each LS = Lump Sum SQ = Roofing Square (10 ft X 10 ft)

Cost/Unit - The cost of a component. The unit cost is multiplied by the component's quantity to obtain the total estimated replacement cost for the component.

Remaining Life – An opinion of the probable remaining life, in years, that a reserve component can be expected to continue to serve its intended function. Replacements anticipated to occur in the initial or base year have "zero" Remaining Life.

Useful Life - Total Useful Life or Depreciable Life. An opinion of the total probable life, in years, that a reserve component can be expected to serve its intended function in its present condition.

Table 3.1A: Component Assessment and Valuation

Note: All numbers provided are the engineer's opinion of probable life and cost in 2020 dollars. Exact numbers may vary.

	Component	Quantity	Units	Cost/Unit	Remaining Life (Years)	Useful Life (Years)	Total Cost	Cost per Unit	Avg. Cost per Unit per Year
3.2	**SITE**								
	Asphalt overlay	369,600	SF	$2.27	28	30	$838,992	$3,712	$123.75
	Asphalt seal coating and restriping	369,600	SF	$0.23	3	5	$85,008	$376	$75.23
	Resurface dock decking with synthetic decking	1,300	SF	$7.69	1	50	$10,000	$44	$0.88
	Rebuild the dock and pilings	1	LS	$90,000	1	50	$90,000	$398	$7.96
	Replace concrete bulkhead at north beach	220	LF	$280	24	50	$61,600	$273	$5.45
	Playground equipment replacement	1	LS	$34,365	25	25	$34,365	$152	$6.08
	Picnic assets replacement allotment	1	LS	$2,500	4	5	$2,500	$11	$2.21
	Rebuild the north beach stairs	1	LS	$6,800	22	25	$6,800	$30	$1.20
	Replace the bus stop shelter and entrance sign	1	LS	$6,869	30	30	$6,869	$30	$1.01
	Resurface the tennis court	1	LS	$11,200	6	25	$11,200	$50	$1.98
	No privacy fencing is the responsibility of the Homeowners Association								
	Landscaping paid for via the operating budget								
3.3	**STRUCTURE**								
	No structural expenditures budgeted								
3.4	**ROOFING**								
	There are no common roofs on this property								
3.5	**EXTERIOR**								
	There are no common exteriors in this property								
3.6	**ELECTRICAL SYSTEMS**								
	There are no common electrical systems on this property								
3.7	**PLUMBING SYSTEMS**								
	Water distribution system owned and maintained via a private utility								
	Septic systems are all owned and maintained by individual owners								

	Component	Quantity	Units	Cost/Unit	Remaining Life (Years)	Useful Life (Years)	Total Cost	Cost per Unit	Avg. Cost per Unit per Year
3.8	**HVAC SYSTEMS**								
	No common HVAC systems								
3.9	**ELEVATORS**								
	No common elevators								
3.10	**FIRE DETECTION & SUPPRESSION**								
	No common fire detection and suppression systems								
3.11	**COMMON INTERIOR FINISHES**								
	No common interior areas								
3.12	**MISCELLANEOUS**								
	No miscellaneous expenses								
3.13	**AMENITIES**								
	No amenities not mentioned in other areas of this table								
							Average Cost Per Unit Per Year		**$226**

3.20 SUMMARY OF ANNUAL ANTICIPATED EXPENSES

Using the conclusions described throughout "Section 3.0 Physical Analysis", the following Table 3.20 lists the annual anticipated capital expenses for each reserve item in the year that we believe is most probable. All of these anticipated expenses already have inflation factored into them at the assumed level that is listed in "Section 4.3 Assumptions for Future Interest Rate and Inflation".

TABLE 3.20: ANNUAL CAPITAL EXPENSES

	Action Required	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
3.2	**SITE**													
	Asphalt overlay													
	Asphalt seal coating and restriping				$92,891					$107,686				
	Resurface dock decking with synthetic decking		$10,300											
	Rebuild the dock and pilings		$92,700											
	Replace concrete bulkhead at north beach													
	Playground equipment replacement													
	Picnic assets replacement allotment					$2,814					$3,262			
	Rebuild the north beach stairs													
	Replace the bus stop shelter and entrance sign													
	Resurface the tennis court							$13,373						
3.3	**STRUCTURE**													
	No structural expenditures budgeted													
3.4	**ROOFING**													
	There are no common roofs on this property													
3.5	**EXTERIOR**													
	There are no common exteriors in this property													
3.6	**ELECTRICAL SYSTEMS**													
	There are no common electrical systems on this property													
3.7	**PLUMBING SYSTEMS**													
	Water distribution system owned and maintained via a private utility													
3.8	**HVAC SYSTEMS**													
	No common HVAC systems													
3.9	**ELEVATORS**													
	No common elevators													
3.10	**FIRE DETECTION & SUPPRESSION**													
	No common fire detection and suppression systems													

TABLE 3.20: ANNUAL CAPITAL EXPENSES

	Action Required	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
3.11	**COMMON INTERIOR FINISHES**													
	No common interior areas													
3.12	**MISCELLANEOUS**													
	No miscellaneous expenses													
3.13	**AMENITIES**													
	No amenities not mentioned in other areas of this table													
	ANNUAL EXPENSES BY YEAR	**$0**	**$103,000**	**$0**	**$92,891**	**$2,814**	**$0**	**$13,373**	**$0**	**$107,686**	**$3,262**	**$0**	**$0**	**$0**

TABLE 3.20: ANNUAL CAPITAL EXPENSES

	Action Required	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
3.2	**SITE**													
	Asphalt overlay													
	Asphalt seal coating and restriping	$124,837					$144,720					$167,771		
	Resurface dock decking with synthetic decking													
	Rebuild the dock and pilings													
	Replace concrete bulkhead at north beach												$125,220	
	Playground equipment replacement													$71,953
	Picnic assets replacement allotment		$3,781					$4,384					$5,082	
	Rebuild the north beach stairs										$13,030			
	Replace the bus stop shelter and entrance sign													
	Resurface the tennis court													
3.3	**STRUCTURE**													
	No structural expenditures budgeted													
3.4	**ROOFING**													
	There are no common roofs on this property													
3.5	**EXTERIOR**													
	There are no common exteriors in this property													
3.6	**ELECTRICAL SYSTEMS**													
	There are no common electrical systems on this property													
3.7	**PLUMBING SYSTEMS**													
	Water distribution system owned and maintained via a private utility													
3.8	**HVAC SYSTEMS**													
	No common HVAC systems													
3.9	**ELEVATORS**													
	No common elevators													
3.10	**FIRE DETECTION & SUPPRESSION**													
	No common fire detection and suppression systems													

TABLE 3.20: ANNUAL CAPITAL EXPENSES

	Action Required	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
3.11	**COMMON INTERIOR FINISHES**													
	No common interior areas													
3.12	**MISCELLANEOUS**													
	No miscellaneous expenses													
3.13	**AMENITIES**													
	No amenities not mentioned in other areas of this table													
	ANNUAL EXPENSES BY YEAR	**$124,837**	**$3,781**	**$0**	**$0**	**$0**	**$144,720**	**$4,384**	**$0**	**$0**	**$13,030**	**$167,771**	**$130,302**	**$71,953**

TABLE 3.20: ANNUAL CAPITAL EXPENSES

	Action Required	2045	2046	2047	2048	2049
3.2	**SITE**					
	Asphalt overlay			$1,919,553		
	Asphalt seal coating and restriping			$194,492		
	Resurface dock decking with synthetic decking					
	Rebuild the dock and pilings					
	Replace concrete bulkhead at north beach					
	Playground equipment replacement					
	Picnic assets replacement allotment				$5,891	
	Rebuild the north beach stairs					
	Replace the bus stop shelter and entrance sign					$16,673
	Resurface the tennis court					
3.3	**STRUCTURE**					
	No structural expenditures budgeted					
3.4	**ROOFING**					
	There are no common roofs on this property					
3.5	**EXTERIOR**					
	There are no common exteriors in this property					
3.6	**ELECTRICAL SYSTEMS**					
	There are no common electrical systems on this property					
3.7	**PLUMBING SYSTEMS**					
	Water distribution system owned and maintained via a private utility					
3.8	**HVAC SYSTEMS**					
	No common HVAC systems					
3.9	**ELEVATORS**					
	No common elevators					
3.10	**FIRE DETECTION & SUPPRESSION**					
	No common fire detection and suppression systems					

TABLE 3.20: ANNUAL CAPITAL EXPENSES

	Action Required	2045	2046	2047	2048	2049
3.11	**COMMON INTERIOR FINISHES**					
	No common interior areas					
3.12	**MISCELLANEOUS**					
	No miscellaneous expenses					
3.13	**AMENITIES**					
	No amenities not mentioned in other areas of this table					
	ANNUAL EXPENSES BY YEAR	**$0**	**$0**	**$2,114,045**	**$5,891**	**$16,673**

4.0 FINANCIAL ANALYSIS

The financial analysis in this Reserve Study is a proprietary system that was developed by Jeff Samdal & Associates. We have provided the funding method that we believe will most adequately fund the reserves of this Association.

4.1 CURRENT FINANCIAL INFORMATION AND CURRENT FUNDING PLAN

The Association's Reserve Fund balance was $521,081 as of December 31, 2019 (Balance provided by Shirelle Schaefer). According to our calculations detailed in this report, the Reserve Fund balance required for "Full Funding" of this property at this time is $229,796. Therefore, the property is 226.8% funded.

The current annual contribution to the reserve fund is $29,592, which averages $10.91 per unit per month. For the purpose of comparison to our recommended funding plans, we have assumed that the Association will increase their current reserve fund contribution by 3% annually to account for inflation. This is shown in Table 4.5 "Reserve Fund Balance Sheet" (Section 4.5) and all subsequent figures.

This property is currently
226.8%
funded.

This funding contribution is not adequate to maintain "Full Funding" of this property beyond 2021.

4.2 RECOMMENDED RESERVE FUNDING PLAN

Full Funding is the ideal position for any property and represents a strong financial position. We recommend that all properties be Fully Funded, as Full Funding allows Associations to maintain their properties adequately and minimizes their risk of unplanned special assessments.

Our funding recommendations are as follows:

Option One: Immediate Disbursement from Reserve Fund to Owners

The Reserve Fund is well beyond full funding. If the Board would like to bring the Reserve Fund down to the level of full funding than they should make a disbursement of $291,285 from the Reserve Fund to the owners. This translates to an average disbursement of $1,289 per unit.

Following this initial disbursement, the funding plan necessary to maintain a Fully Funded Capital Reserve Fund for the duration of this study will be a total property contribution of $51,024 per year in the initial year, which translates to $18.81 per unit per month. This annual contribution will need to be increased 3% each subsequent year to maintain Full Funding and to account for inflation.

For a detailed look at the annual funding contribution necessary per year, see Table 4.5 "Reserve Fund Balance Sheet" (Section 4.5).

-OR-

Option One

Average Immediate Disbursement Per Unit:

$1,289

Avg. Contribution Thereafter Per Unit Per Month:

2020 $18.81

(with 3% annual increase thereafter)

4.3 OTHER REQUIRED FUNDING PLAN OPTIONS

Per Washington State RCW 64.90.550, our Reserve Study is required to provide the following funding plans:

- **30-Year Make up** - Funding Plan necessary for the Association Reserve Fund to reach a Full Funding Level in 30 years.
- **Baseline Funding** - Minimum level of funding required in order to maintain the Reserve Fund above zero while paying for all components listed in Table 3.1 - Component Assessment and Valuation Table.

Special Note: Because these are "bare minimum" funding options that increase an Association's risk for special assessments (and financial instability), we do not recommend either of these funding options. We recommend that the Association obtain a level of Full Funding as soon as possible to ensure that the Association has the resources necessary to adequately maintain its collective property and minimize the burden of special assessments.

These required options are as follows:

Option Four: Full Funding in 30 Years

As the Reserve Fund is already above the level of full funding, this option is not applicable.

-OR-

Option Five: Baseline Funding – Keeping Reserve Balance above Zero

The funding plan necessary to maintain the Reserve Fund above zero for the duration of this study will be an annual contribution of $39,072 per year in the initial year, which translates to $14.41 per unit per month. This annual contribution will need to be increased 3% each subsequent year to maintain the Reserve Fund above zero and to account for inflation.

For a detailed look at the annual funding contribution necessary per year, see Table 4.5 "Reserve Fund Balance Sheet" (Section 4.5).

Option Five

Average Contributions Per Unit Per Month:

$14.41

(with 3% annual increase thereafter)

4.4 ASSUMPTIONS FOR FUTURE INTEREST RATE AND INFLATION

For the purposes of this report, we have assumed that the inflation rate over the next 30 years will average 3%. This is based on historical averages over the last 25 years and our conservative best guess for the future. This percentage can vary greatly just as global economic conditions can vary, which is one reason why this Reserve Study should be updated annually per Washington RCW 64.90.550, which we provide complimentary over the next two years with this Reserve Study (see Appendix).

For the purpose of this study, we will assume that the Association manages their money in the Reserve Fund so that the average interest rate return on its money will be equal to that of inflation. This is a conservative estimate given that since 1965, the average yield between short term treasuries and inflation has been 1.04%, which means that these relatively conservative investments have been able to outpace inflation over the long term (according to Crestmont Research, www.crestmontresearch.com). Since we have assumed that the inflation rate over the duration of this study will average 3%, we have conservatively also assumed that the Reserve Fund average interest rate will equal 3%. Again, this does not reflect current averages but rather a best guess of the future assuming you have invested effectively.

A common strategy is to invest in multiple accounts. Funds that will be necessary in the shorter term must be kept in a relatively liquid account. Funds that are not allotted for near future planned expenditures can be deposited into longer term investments which frequently earn higher interest rates. Consult with a qualified financial advisor for the best solution for your Association.

4.5 ANNUAL FUND BALANCES; ANNUAL FUNDING TABLE AND FIGURES

The table and figures shown in this section are intended to give the Association a clearer view of the likely future financial position that the Association will be in, provided that the reserve funding plan is followed.

- Table 4.5: “Reserve Fund Balance Sheet”. This table lists annual revenue, expenses, and year end reserve fund balances. All Section 4.5 Figures are based on this data.

- Figure 4.5A-1: “Comparison of Funding Plans -- Reserve Fund Balances Through 2049”. This line graph depicts the funding balances of the proposed funding options vs. the current. Note the current plan, in dotted red, falls below zero in several places. This represents insufficient funding for repairs needed in these years.

- Figure 4.5A-2: “Comparison of Funding Plans -- Reserve Fund Balances Through 2029”. This line graph focuses on the next ten years, comparing the proposed plans to get the Association to a Full Funding status.

- Figure 4.5B: “Comparison of Funding Plans -- Association Contributions to Reserve Fund by Year”

- Figure 4.5C: “Comparison of Funding Plans – Percentage of Full Funding by Year”

TABLE 4.5: RESERVE FUND BALANCE SHEET

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
CURRENT FUNDING PLAN												
Beginning Reserve Balance	521,081	536,714	478,306	523,592	476,881	521,153	570,593	608,957	663,090	610,622	663,678	722,779
Planned Special Assessments												
Regular Reserve Fund Contribution	-	29,592	30,480	31,394	32,336	33,306	34,305	35,334	36,394	37,486	38,611	39,769
Annual Total Property Contribution to The Reserve Fund	-	29,592	30,480	31,394	32,336	33,306	34,305	35,334	36,394	37,486	38,611	39,769
Average Monthly Contribution to the Reserve Fund per Unit	10.91	10.91	10.91	10.91	10.91	10.91	10.91	10.91	10.91	10.91	10.91	10.91
Annual Capital Expenses	-	103,000	-	92,891	2,814	-	13,373	-	107,686	3,262	-	-
Interest Income	15,632	15,000	14,806	14,785	14,749	16,134	17,432	18,799	18,823	18,832	20,490	22,280
Ending Reserve Balance	***536,714***	***478,306***	***523,592***	***476,881***	***521,153***	***570,593***	***608,957***	***663,090***	***610,622***	***663,678***	***722,779***	***784,828***
Percentage of Full Funding	233.6%	254.0%	210.4%	218.1%	185.7%	163.4%	149.3%	137.1%	134.3%	124.6%	116.9%	110.8%
IMMEDIATE FULL FUNDING												
Beginning Reserve Balance	521,081	521,081	188,303	248,895	218,669	280,662	349,120	407,858	483,787	454,605	532,505	618,080
Full Funding Annual Maintenace Funding	-	51,024	54,131	55,755	57,427	59,150	60,925	62,753	64,635	66,574	68,571	70,629
Planned Special Assessments / Make up Funds		(291,285)										
Annual Total Property Contribution to The Reserve Fund	-	(240,262)	54,131	55,755	57,427	59,150	60,925	62,753	64,635	66,574	68,571	70,629
Average Monthly Contribution to the Reserve Fund per Unit		18.81	19.96	20.56	21.18	21.81	22.46	23.14	23.83	24.55	25.28	26.04
Annual Capital Expenses	-	103,000	-	92,891	2,814	-	13,373	-	107,686	3,262	-	-
Interest Income		10,484	6,461	6,910	7,379	9,307	11,187	13,177	13,868	14,588	17,004	19,602
Full Funding - Ending Reserve Balance	***521,081***	***188,303***	***248,895***	***218,669***	***280,662***	***349,120***	***407,858***	***483,787***	***454,605***	***532,505***	***618,080***	***708,310***
Percentage of Full Funding	226.8%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Yellow Highlighted Cells Represent Make-Up Funds												
BASELINE FUNDING												
Beginning Reserve Balance	521,081	521,081	471,827	526,830	490,424	545,616	606,620	657,219	724,290	685,492	752,983	827,318
Full Funding Annual Maintenace Funding	-	39,072	40,244	41,451	42,695	43,976	45,295	46,654	48,054	49,495	50,980	52,510
Planned Special Assessments / Make up Funds												
Annual Total Property Contribution to The Reserve Fund	-	39,072	40,244	41,451	42,695	43,976	45,295	46,654	48,054	49,495	50,980	52,510
Average Monthly Contribution to the Reserve Fund per Unit		14.41	14.84	15.28	15.74	16.22	16.70	17.20	17.72	18.25	18.80	19.36
Annual Capital Expenses	-	103,000	-	92,891	2,814	-	13,373	-	107,686	3,262	-	-
Interest Income		14,674	14,758	15,033	15,311	17,028	18,677	20,416	20,834	21,258	23,354	25,607
Ending Reserve Balance	***521,081***	***471,827***	***526,830***	***490,424***	***545,616***	***606,620***	***657,219***	***724,290***	***685,492***	***752,983***	***827,318***	***905,434***
Percentage of Full Funding	226.8%	250.6%	211.7%	224.3%	194.4%	173.8%	161.1%	149.7%	150.8%	141.4%	133.9%	127.8%

TABLE 4.5: RESERVE FUND BALANCE SHEET

	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
CURRENT FUNDING PLAN												
Beginning Reserve Balance	784,828	849,949	791,562	855,579	926,679	1,001,274	1,079,511	1,014,650	1,091,774	1,177,195	1,266,759	1,347,412
Planned Special Assessments												
Regular Reserve Fund Contribution	40,962	42,191	43,457	44,761	46,103	47,486	48,911	50,378	51,890	53,446	55,050	56,701
Annual Total Property Contribution to The Reserve Fund	40,962	42,191	43,457	44,761	46,103	47,486	48,911	50,378	51,890	53,446	55,050	56,701
Average Monthly Contribution to the Reserve Fund per Unit	10.91	10.91	10.91	10.91	10.91	10.91	10.91	10.91	10.91	10.91	10.91	10.91
Annual Capital Expenses	-	124,837	3,781	-	-	-	144,720	4,384	-	-	13,030	167,771
Interest Income	24,159	24,259	24,342	26,339	28,492	30,751	30,948	31,129	33,532	36,118	38,633	38,756
Ending Reserve Balance	***849,949***	***791,562***	***855,579***	***926,679***	***1,001,274***	***1,079,511***	***1,014,650***	***1,091,774***	***1,177,195***	***1,266,759***	***1,347,412***	***1,275,099***
Percentage of Full Funding	105.8%	101.9%	97.8%	94.4%	91.5%	89.0%	85.3%	83.2%	81.5%	79.9%	78.4%	74.9%
IMMEDIATE FULL FUNDING												
Beginning Reserve Balance	708,310	803,398	776,844	874,647	981,572	1,094,125	1,212,548	1,190,200	1,312,269	1,445,173	1,584,871	1,718,425
Full Funding Annual Maintenace Funding	72,747	74,930	77,178	79,493	81,878	84,334	86,864	89,470	92,154	94,919	97,766	100,699
Planned Special Assessments / Make up Funds												
Annual Total Property Contribution to The Reserve Fund	72,747	74,930	77,178	79,493	81,878	84,334	86,864	89,470	92,154	94,919	97,766	100,699
Average Monthly Contribution to the Reserve Fund per Unit	26.82	27.63	28.46	29.31	30.19	31.10	32.03	32.99	33.98	35.00	36.05	37.13
Annual Capital Expenses	-	124,837	3,781	-	-	-	144,720	4,384	-	-	13,030	167,771
Interest Income	22,341	23,353	24,406	27,432	30,675	34,089	35,509	36,982	40,750	44,779	48,817	50,547
Full Funding - Ending Reserve Balance	***803,398***	***776,844***	***874,647***	***981,572***	***1,094,125***	***1,212,548***	***1,190,200***	***1,312,269***	***1,445,173***	***1,584,871***	***1,718,425***	***1,701,901***
Percentage of Full Funding	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Yellow Highlighted Cells Represent Make-Up Funds												
BASELINE FUNDING												
Beginning Reserve Balance	905,434	987,493	946,952	1,029,761	1,120,640	1,216,046	1,316,167	1,274,309	1,375,604	1,486,413	1,602,632	1,711,262
Full Funding Annual Maintenace Funding	54,085	55,707	57,379	59,100	60,873	62,699	64,580	66,517	68,513	70,568	72,685	74,866
Planned Special Assessments / Make up Funds												
Annual Total Property Contribution to The Reserve Fund	54,085	55,707	57,379	59,100	60,873	62,699	64,580	66,517	68,513	70,568	72,685	74,866
Average Monthly Contribution to the Reserve Fund per Unit	19.94	20.54	21.16	21.79	22.45	23.12	23.81	24.53	25.26	26.02	26.80	27.61
Annual Capital Expenses	-	124,837	3,781	-	-	-	144,720	4,384	-	-	13,030	167,771
Interest Income	27,974	28,588	29,213	31,779	34,532	37,422	38,283	39,161	42,296	45,651	48,974	49,944
Ending Reserve Balance	***987,493***	***946,952***	***1,029,761***	***1,120,640***	***1,216,046***	***1,316,167***	***1,274,309***	***1,375,604***	***1,486,413***	***1,602,632***	***1,711,262***	***1,668,301***
Percentage of Full Funding	122.9%	121.9%	117.7%	114.2%	111.1%	108.5%	107.1%	104.8%	102.9%	101.1%	99.6%	98.0%

TABLE 4.5: RESERVE FUND BALANCE SHEET

	2043	2044	2045	2046	2047	2048	2049
CURRENT FUNDING PLAN							
Beginning Reserve Balance	1,275,099	1,240,374	1,265,610	1,366,467	1,472,236	(562,634)	(516,773)
Planned Special Assessments							
Regular Reserve Fund Contribution	58,402	60,154	61,959	63,818	65,732	67,704	69,735
Annual Total Property Contribution to The Reserve Fund	58,402	60,154	61,959	63,818	65,732	67,704	69,735
Average Monthly Contribution to the Reserve Fund per Unit	10.91	10.91	10.91	10.91	10.91	10.91	10.91
Annual Capital Expenses	130,302	71,953	-	-	2,114,045	5,891	16,673
Interest Income	37,174	37,034	38,898	41,951	13,442	(15,952)	(14,707)
Ending Reserve Balance	***1,240,374***	***1,265,610***	***1,366,467***	***1,472,236***	***(562,634)***	***(516,773)***	***(478,418)***
Percentage of Full Funding	71.9%	69.8%	69.0%	68.4%	-294.6%	-165.2%	-111.0%
IMMEDIATE FULL FUNDING							
Beginning Reserve Balance	1,701,901	1,725,978	1,813,159	1,979,242	2,153,657	191,000	312,795
Full Funding Annual Maintenace Funding	103,720	106,832	110,037	113,338	116,738	120,240	123,848
Planned Special Assessments / Make up Funds							
Annual Total Property Contribution to The Reserve Fund	103,720	106,832	110,037	113,338	116,738	120,240	123,848
Average Monthly Contribution to the Reserve Fund per Unit	38.24	39.39	40.57	41.79	43.05	44.34	45.67
Annual Capital Expenses	130,302	71,953	-	-	2,114,045	5,891	16,673
Interest Income	50,658	52,303	56,045	61,077	34,650	7,445	10,991
Full Funding - Ending Reserve Balance	***1,725,978***	***1,813,159***	***1,979,242***	***2,153,657***	***191,000***	***312,795***	***430,961***
Percentage of Full Funding	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Yellow Highlighted Cells Represent Make-Up Funds							
BASELINE FUNDING							
Beginning Reserve Balance	1,668,301	1,664,363	1,721,878	1,856,570	1,997,793	63	84,820
Full Funding Annual Maintenace Funding	77,112	79,425	81,808	84,262	86,790	89,394	92,076
Planned Special Assessments / Make up Funds							
Annual Total Property Contribution to The Reserve Fund	77,112	79,425	81,808	84,262	86,790	89,394	92,076
Average Monthly Contribution to the Reserve Fund per Unit	28.43	29.29	30.17	31.07	32.00	32.96	33.95
Annual Capital Expenses	130,302	71,953	-	-	2,114,045	5,891	16,673
Interest Income	49,251	50,043	52,883	56,961	29,525	1,254	3,676
Ending Reserve Balance	***1,664,363***	***1,721,878***	***1,856,570***	***1,997,793***	***63***	***84,820***	***163,899***
Percentage of Full Funding	96.4%	95.0%	93.8%	92.8%	0.0%	27.1%	38.0%

Figure 4.5A-1 Comparison of Funding Plans – Reserve Fund Balances Through 2049

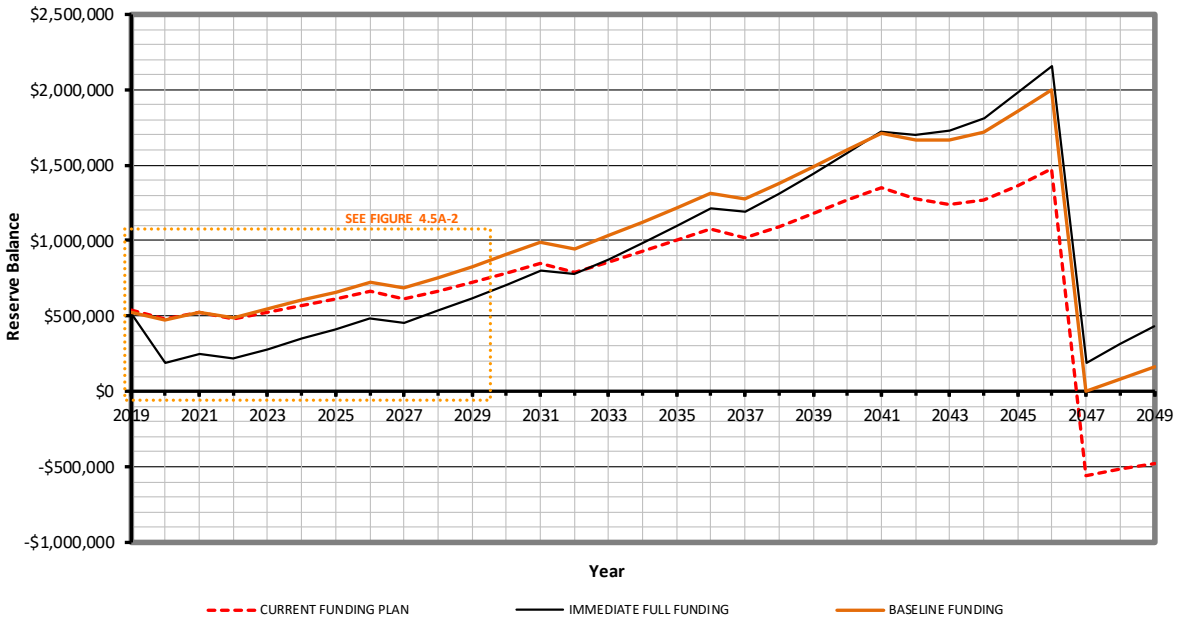


Figure 4.5A-2 Comparison of Funding Plans – Reserve Fund Balances Through 2029

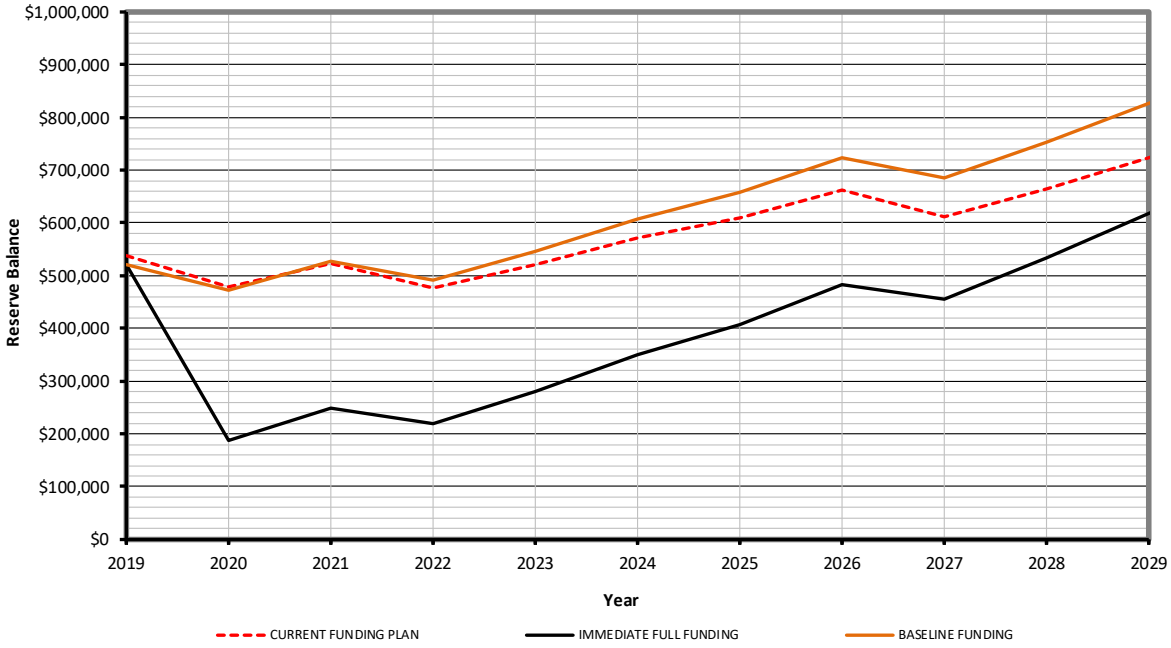


Figure 4.5B Comparison of Funding Plans -- Association Contributions to Reserve Fund by Year

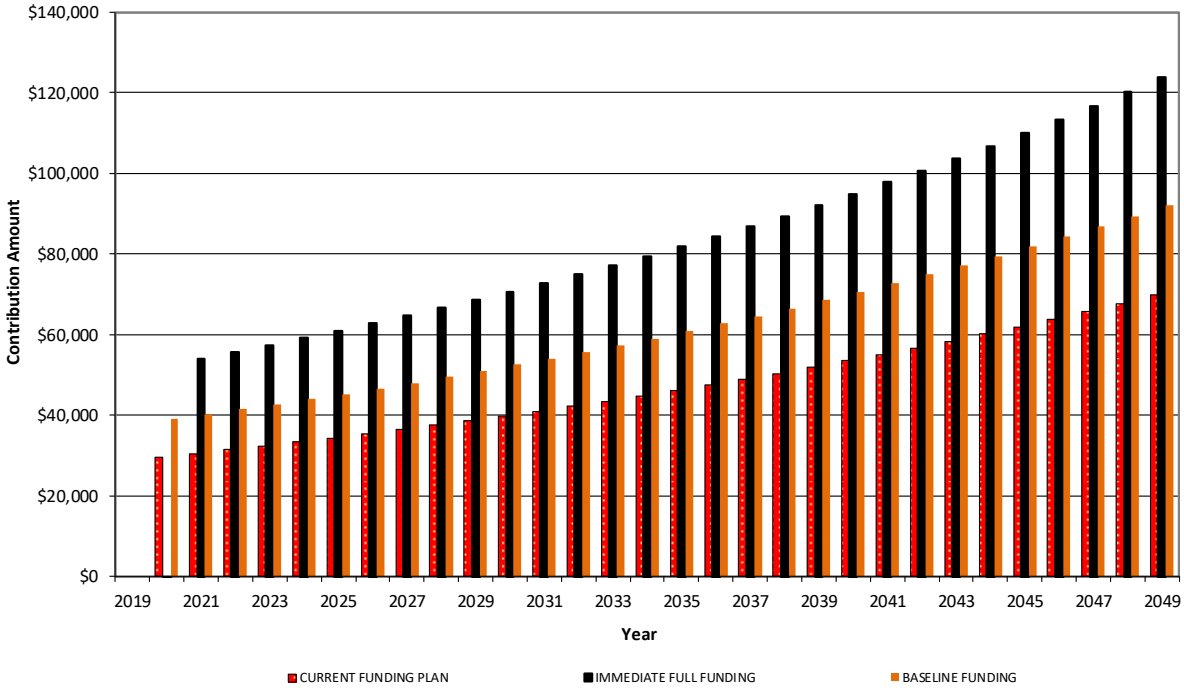
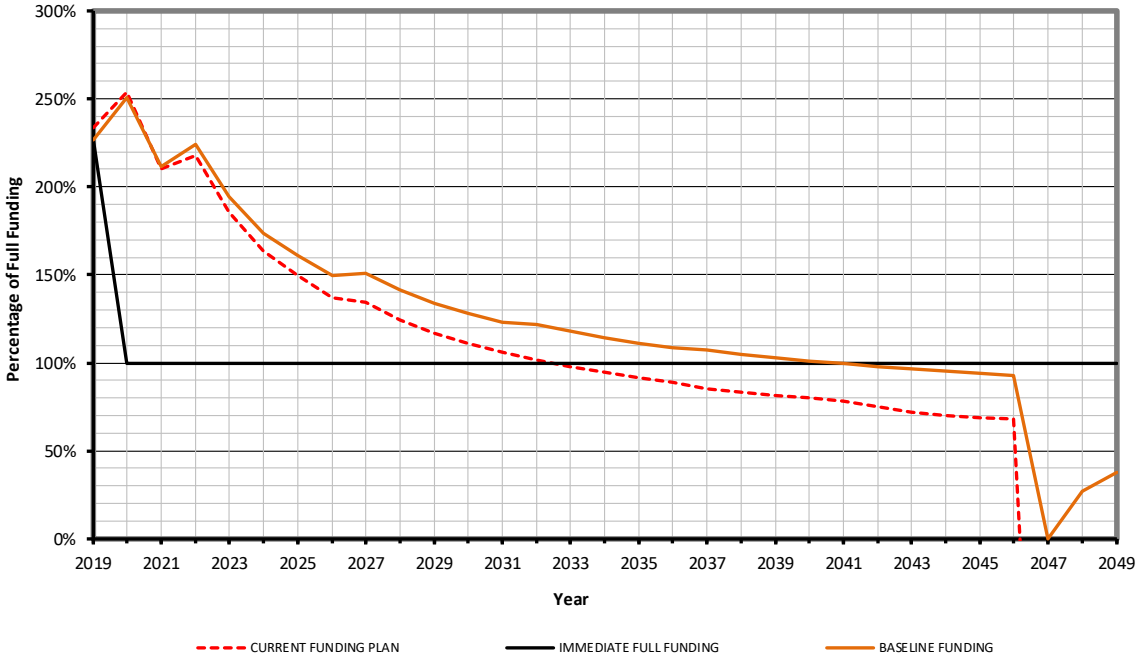


Figure 4.5C Comparison of Funding Plans – Percentage of Full Funding by Year



4.6 OTHER COMMON FUNDING METHODS

The following methods are methods that are sometimes implemented. We believe that many of these funding methods that keep the reserve fund at less than "Fully Funded" represent a weaker position for the Association. As the Fully Funded percentage decreases, the likelihood of unplanned special assessments increases.

Cash Flow Method

A method of calculating Reserve contributions 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.

Component Method

A method of calculating Reserve contributions where the total reserve contribution is based on the sum of contributions for individual components.

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 the Reserve Fund at or near 100% funded. *Recommended by Jeff Samdal & Associates*

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. Depending on the threshold this may be more or less conservative than "Fully Funded."

5.0 LIMITATIONS

This report has been prepared for the exclusive use of Raft Island Homeowners Association and their property management company. We do not intend for any other party to rely on this report for any reason without our expressed written consent. If another individual or party relies on this study, they shall indemnify and hold Jeff Samdal & Associates harmless for any damages, losses, or expenses they may incur as a result of its use.

The Level 3 Reserve Study is a reflection of the information provided to us. This report has been prepared for Raft Island Homeowners Association's use, not for the purpose of performing an audit, quality/forensic analyses, or background checks of historical records. Our inspection report is not an exhaustive technical inspection of the property; we merely comment on the items that we believe that our clients would benefit from knowing. During a typical inspection, no invasive inspection is performed, no furnishings are moved, and no finishes are removed.

This report is a snap shot in time of the condition of the property at the time of inspection. The remaining life values that we list are based on our opinion of the remaining useful life and are by no means a guarantee. Our opinions are based on what we believe one could reasonably expect and are not based on worst case scenarios. These opinions are based upon our experience with other buildings of similar age and construction type. Opinions will vary and you may encounter contractors and/or consultants with differing opinions from ours. Ratings of various building components are most often determined by comparison to other buildings of similar age and construction type. The quality of materials originally impacts our judgment of their current state.

The life expectancy estimates that we prepare are based on National Association of Home Builders (NAHB) averages, Building Owners and Managers (BOMA) averages, product defined expected life averages, and our own assessment of typical life expectancy based on our experience with similar components in our area.

This report will tell you a great deal about the overall condition of this property. However, this report does not constitute a warranty, an insurance policy, or a guarantee of any kind. Owning any property involves some risk and while we can give an excellent overview of the property, we cannot inspect what we cannot see.

Our inspection and report do not include building code compliance or municipal regulatory compliance. Nor do they include mold investigations, hazardous materials investigations, or indoor air quality analysis.

The purpose of this report is not intended to be a statement of insurability of this property as insurance companies have particular standards for insurability of certain building types and certain building materials.

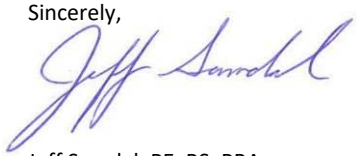
While we may comment that certain components have been recalled that we are aware of, we are not aware of all recalls. It is beyond the scope of this inspection to determine all systems or components that are currently or will be part of any recall in the future. You may wish to subscribe or contact the CPSC (Consumer Product Safety Commission) web site for recall information regarding any system or component. If a problem is encountered on your property, we cannot be responsible for any corrective action that you take, unless we have the opportunity to review the conditions, before repairs are made.

Please ensure that you have read and understand the entire proposal to perform this Level 3 Reserve Study that was signed prior to our inspection. If you have any questions regarding this document, please contact us.

We appreciate the opportunity to be of assistance and we hope that we have provided you a clear understanding of your financial situation and given you a better overall understanding of the your property. This report supersedes any opinion or discussion that occurred during the inspection and should be considered our complete opinion of the condition of this property.

Please contact us if you have any questions regarding this report. We will be happy to be of assistance.

Sincerely,



Jeff Samdal, PE, RS, PRA

APPENDIX

Resume of Engineer Performing Study

Jeff Samdal, P.E., Principal

Professional Qualifications and Experience

Areas of Expertise

Mr. Samdal is the owner of Jeff Samdal & Associates, Inc. (formerly Samdal Engineering), a corporation that specializes in building inspections, engineering, project management, and related services. He is a double-licensed Professional Engineer (Mechanical and Civil) in Washington State. He is also an accredited Building Inspection Engineer (BIE) and Reserve Specialist (RS). He has performed thousands of building inspections as well as numerous additional services such as building envelope investigations, construction management, and general consulting for property owners pertaining to building maintenance and long term budgeting. Mr. Samdal consistently earns repeat and referral business because of his attention to detail, practical approach, knowledge of the industry, and genuine appreciation for clients' concerns for their real estate investments.

Capabilities

Mr. Samdal is experienced at performing residential (single- and multi-family), commercial, and industrial inspections in Washington State and beyond. Mr. Samdal's experience includes the following:

- Property Condition Assessments (PCAs)
- Capital Needs Assessments (CNAs)
- Reserve Studies for Condominiums and Homeowner's Association
- Building Envelope Studies

Relevant Work History

Mr. Samdal has been owner and operator of Jeff Samdal & Associates / Samdal Engineering since 2005. Before concentrating on building inspections, Mr. Samdal worked for Washington Group International's (WGI) Hydropower and Water Resources Group. While working for WGI, Mr. Samdal was involved in rebuilding and rehabilitating hydro facilities. He served as the on-site powerhouse and switchyard inspector during construction. His duties included design, drawing and specification preparation, cost estimating, scheduling, and construction management. Prior to working for WGI, Mr. Samdal worked for Duke Energy in a similar role.

Education

BS in Mechanical Engineering, University of Washington

Licenses and Certifications

- *Licensed Professional Engineer* (PE), Mechanical Engineering, State of Washington, #40985
- *Licensed Professional Engineer* (PE), Civil Engineering, State of Washington, #40985
- *Reserve Specialist* (RS), Community Associations Institute (CAI), #173
- *Professional Reserve Analyst (PRA),* Association of Professional Reserve Analysts
- *Building Inspection Engineer* (BIE), National Association of Building Inspection Engineers
- *Structural Pest Inspector*, State of Washington, #70763

Professional Affiliation

American Society of Mechanical Engineers, 2002 – present

Community Involvement

Mr. Samdal is married with two kids and lives in Woodinville. He has volunteered as a Little League coach since 2009 starting with tee-ball and volunteers as a scout leader.