

# VERANO HOMEOWNERS ASSOCIATION

c/o Cornerstone Community Management  
1800 Hamilton Avenue #210 San Jose, California 95125-5635  
(408) 448-3080

## 2012 Annual Budget & Annual Disclosures

November 1, 2011

Dear Homeowner of HOA:

The Board of Directors is pleased to provide you with a copy of the 2012 Budget and relevant documents and disclosures that comply with applicable California Civil Code:

- A. The 2012 Budget for HOA
- B. The Assessment & Reserve Funding Disclosure Summary 1365.2.5
- C. The Associations current Delinquency & Collection Policy 1365.1
- D. Procedures under the law relating to Alternative Dispute Resolution (ADR & IDR) 1363.850, 1369.520
- E. The Association's current Insurance Coverage.

The budget calls for the monthly assessments to remain at \$162.00 per unit, per month. The budget reflects the efforts of the Board of Directors to maintain and enhance the quality of life, while keeping the expenditures in line with today's current costs. The budget takes effect on January 1, 2012. Shortly, you will be receiving a coupon book for the new fiscal year. For those owners on the monthly auto-pay program, the monthly amount will be changed for you. For those owners who generate or use an online bill pay service, you will need to change the monthly amount.

If you have any questions or concerns regarding this letter or the enclosed budget, please plan to attend the next Board meeting. Interim questions may be addressed to the Board of Directors or your Association Manager, Wendy Wazenkewitz at Cornerstone Community Management (408) 448-3080 x 216 or [wendy@cornerstonemgt.biz](mailto:wendy@cornerstonemgt.biz)

Sincerely,

The Board of Directors

**VERANO HOMEOWNERS ASSOCIATION  
BUDGET**

FISCAL YEAR 2012

UNITS 54

ITEM	MONTH PER UNIT	MONTHLY TOTAL	ANNUAL TOTAL	LAST YEAR MONTHLY
<b>REVENUE</b>				
Assessments	162.00	8,748.00	104,976.00	8,748.00
Interest	0.00	0.00	0.00	0.00
	162.00	8,748.00	104,976.00	8,748.00
<b>EXPENSES - GROUNDS &amp; FACILITIES</b>				
Landscape Contract	36.11	1,950.00	23,400.00	1,950.00
Landscape Additional	6.43	347.00	4,164.00	432.00
Maintenance - Lighting	0.88	47.50	570.00	47.50
Maintenance - Irrigation	3.09	167.00	2,004.00	167.00
Maintenance - Tree	5.09	275.00	3,300.00	275.00
Maintenance & Repairs	2.17	117.00	1,404.00	117.00
Reserve Contribution	49.91	2,695.00	32,340.00	2,610.00
Utilities - Electric	0.35	19.00	228.00	19.00
Utilities - Water & Sewer	16.28	879.00	10,548.00	879.00
<b>SUB TOTAL</b>	120.31	6,496.50	77,958.00	6,496.50
<b>EXPENSES - GENERAL AND ADMINISTRATIVE</b>				
Audit & Tax Preparation	3.06	165.00	1,980.00	165.00
Bank Charges	0.46	25.00	300.00	25.00
Insurance	10.44	564.00	6,768.00	564.00
Lien Fees	1.85	100.00	1,200.00	100.00
Legal	2.11	114.00	1,368.00	114.00
Management - Fee	17.00	918.00	11,016.00	918.00
Office Expense	1.63	88.00	1,056.00	88.00
Postage	1.02	55.00	660.00	55.00
Printing & Copies	1.76	95.00	1,140.00	95.00
Taxes - Federal	1.39	75.00	900.00	75.00
Taxes - State	0.93	50.00	600.00	50.00
Taxes - Licenses & Fees	0.05	2.50	30.00	2.50
<b>SUB TOTAL</b>	41.69	2,251.50	27,018.00	2,251.50
<b>TOTAL EXPENSES</b>	162.00	8,748.00	104,976.00	8,748.00

## **Verano Homeowner Association Collection Policy**

1. Regular assessments are due, in advance, on the first (1<sup>st</sup>) day of each assessment period and delinquent if not received, in full, by the Association within fifteen (15) days after the due date thereof. Special and Special Individual Assessments are due on the date(s) specified upon imposition and each installment thereof shall be delinquent if not received by the Association with fifteen (15) days after it is due. A late charge of ten dollars (\$10.00) or ten percent (10%) of the delinquent assessment, whichever is greater, shall be due on any such delinquent assessment.
2. At the option of the Association, interest shall be due on all such amounts, once due and unpaid for thirty (30) days, at the rate of twelve (12%) per annum.
3. If any portion of any such assessment, late charge, interest or cost of collection remains unpaid sixty (60) days after the original due date thereof, a "Letter of Intent" to file a Notice of Delinquent Assessment ("Lien"), also known as a "Pre-lien Notice," will be prepared and sent to the record owner(s). Please be advised that the Association has the right to collect all reasonable cost of collection.
4. All such amounts, and all other assessments and related charges thereafter due to the Association until all such amounts are paid, must be paid in full and the Association shall not be required to accept any partial or installment payments from the date of the referral of an action to enforce the payment of delinquent amounts to the time that all such amounts are paid in full.
5. If all such amounts have not been received thirty (30) days after the Pre-lien Notice is mailed to the owner(s) of record, a Lien will be prepared and recorded as to the delinquent property and the owner(s) thereof, and all collection fees and costs incurred will be added to the total delinquent amount.
6. If all such amounts have not been received, in full, within thirty (30) days after the recordation of such Lien and the delinquent assessment exclusive of any accelerated assessments, late charges, attorney's fees, fees, interest and costs of collection is greater than Eighteen Hundred Dollars (\$1,800.00) and/or the delinquent assessment is more than Twelve (12) months delinquent, the Association may, without further advance notice, proceed to take any and all additional enforcement remedies as the Association, in its sole discretion, deems appropriate, including, without limitation, non-judicial foreclosure of such Lien, judicial foreclosure, or suit for money damages, all at the expense of the property owner(s). The Association has the right at all times to attempt to collect any delinquent regular or special assessment including accelerated assessments, late charges, attorney's fees, fees, interest and costs of collection by any manner provided by law (including a civil lawsuit) for judicial and nonjudicial foreclosure.

7. All payments received by the Association, regardless of the amount paid, will be directed to the oldest assessment balances first, until which time all assessment balances are paid, and then to late charges, interest and costs of collection unless otherwise specified by written agreement.
8. The Association shall charge a “returned check charge” equivalent to the charge incurred by the Association for all checks returned as “non-negotiable”, “insufficient funds” or any other reason.
9. All above-referenced notices will be mailed to the record owner(s) according to law. In the absence of written notification by an owner to the Association, the address of the owner’s separate interest may be treated by the Association as the owner’s mailing address.
10. The Board of Directors of the Association may revise this policy, either generally or on a case-by-case basis, if it finds good cause to do so.
11. **The mailing address for overnight payment of assessments is:**  
Verano HOA  
c/o Cornerstone Community Management  
1800 Hamilton Ave. #210  
San Jose, CA 95125-5635

## NOTICE

### ASSESSMENTS AND FORECLOSURE

This notice outlines some of the rights and responsibilities of owners of property in common interest developments and the associations that manage them. Please refer to the sections of the Civil Code indicated for further information. A portion of the information in this notice applies only to liens recorded on or after January 1, 2003. You may wish to consult a lawyer if you dispute an assessment.

### ASSESSMENTS AND NONJUDICIAL FORECLOSURE

The failure to pay association assessments may result in the loss of an owners' property without court action, often referred to as nonjudicial foreclosure. When using nonjudicial foreclosure, the association records a lien on the owner's property. The owner's property may be sold to satisfy the lien if the lien is not paid. Assessments become delinquent 15 days after they are due, unless the governing documents of the association provide for a longer time. (Sections 1366 and 1367.1 of the Civil Code)

In a nonjudicial foreclosure, the association may recover assessments, reasonable costs of collection, reasonable attorney's fees, late charges, and interest. The association may not use nonjudicial foreclosure to collect fines or penalties, except for costs to repair common areas damaged by a member or a member's guests, if the governing documents provide for this. (Sections 1367.1 of the Civil Code)

At least 30 days prior to recording a lien on an owner's separate interest, the association must provide the owner of record with certain documents by certified mail. Among these documents, the association must send a description of its collection and lien enforcement procedures and the method of calculating the amount. It must also provide an itemized statement of the charges owed by the owner. An owner has a right to review the association's records to verify the debt. (Section 1367.1 of the Civil Code)

If a lien is recorded against an owner's property in error, the person who recorded the lien is required to record a lien release within 21 days, and to provide an owner certain documents in this regard. (Section 1367.1 of the Civil Code)

The collection practices of the association may be governed by state and federal laws regarding fair debt collection. Penalties can be imposed for debt collection practices that violate these laws.

### PAYMENTS

When an owner makes a payment, he or she may request a receipt, and the association is required to provide it. On the receipt, the association must indicate the date of payment and the person who received it. The association must inform owners of a mailing address for overnight payments. (Sections 1367.1 and 1367.1 of the Civil Code)

An owner may dispute an assessment debt by giving the board of the association a written explanation, and the board must respond within 15 days if certain conditions are met. An owner may pay assessments that are in dispute in full under protest, and then request alternative dispute resolution. (Sections 1366.3 and 1367.1 of the Civil Code)

An owner is not liable for charges, interest, and costs of collection, if it is established that the assessment was paid properly on time. (Section 1367.1 of the Civil Code)

#### MEETINGS AND PAYMENT PLANS

An owner of a separate interest that is not a time-share may request the association to consider a payment plan to satisfy a delinquent assessment. The association must inform owners of the standards for payment plans, if any exist. (Section 1367.1 of the Civil Code)

The board of the directors must meet with an owner who makes a proper written request for a meeting to discuss a payment plan when the owner has received a notice of a delinquent assessment. These payment plans must conform with the payment plan standards of the association, if they exist. (Section 1367.1 of the Civil Code)

## **ADDENDUM TO ASSESSMENT COLLECTION POLICY DISPUTE RESOLUTION, MEET AND CONFER, AND ADR**

### **DISPUTE RESOLUTION MEET AND CONFER PROCEDURE CC § 1363.850 As of January 1, 2006**

**WHO MAY START:** This procedure may be invoked by the Association or an Owner. Either party may make a written request to meet and confer to resolve a dispute. The Board shall designate a member of the Board to meet and confer.

**WHO PARTICIPATES:** When a written request for Dispute Resolution is received from an owner, the Association shall participate. If the Association makes a written request for an owner to participate, the owner may elect not to participate.

**NON-PARTICIPATION BY THE OWNER:** If the owner declines to participate, the Association may begin Alternative Dispute Resolution, pursuant to Civil Code § 1369.520.

#### **IF THE OWNER PARTICIPATES, THEN THE MEET AND CONFER TAKES PLACE:**

**A.** Both parties shall meet and confer to resolve the dispute within forty-five (45) days of receipt of the written request by the other party.

**B.** The meeting shall take place promptly at a mutually convenient time and place. Each party shall explain their position and shall confer in good faith to resolve the dispute.

**C.** A written decision shall be made by the designated Board Member and delivered or received by the owner within ten (10) days after the meet and confer.

**D.** A resolution of the dispute agreed to by the parties shall be made in writing and dated and signed by the parties, including the Board designee on behalf of the Association.

**E.** If the owner participates, but the dispute is resolved other than by agreement of the owner, the owner shall have the right to appeal to the Association's Board of Directors.

#### **APPEAL:**

**A.** If the owner disputes the resolution, an appeal must be taken to the Board of Directors within thirty (30) days of the date of the decision by the designated Board member.

**B.** If there is an appeal, the Board must hear the appeal at its next regularly scheduled meeting in executive session, then issue a written decision within ten (10) days.

**IF BOTH PARTIES DO NOT AGREE:** If after the meet and confer and after the appeal to the Board of Directors, the parties still do not mutually agree, then either of the parties can submit the dispute to ADR - Alternative Dispute Resolution as set forth below.

#### **NO CONFLICT:**

**A.** The resolution must not be in conflict with the law or the governing documents.

**B.** The agreement must be consistent with the authority granted to the Board of Directors or the Board must ratify the agreement.

**C.** The written agreement, which is dated and signed by the parties, will bind both parties and be judicially enforceable.

**NO FEE:** No fee will be charged to the owner during this process.

**EXCEPTIONS:** Reasonable exceptions may be made to the time deadlines, in the discretion of the Board. Any exceptions will be made on a case-by-case basis.

**TIME:** The maximum time to act on a request by the owner is forty-five (45) days. Initiation to completion of the dispute will take no more than one-hundred eighty (180) days.

### **ADR - ALTERNATIVE DISPUTE RESOLUTION CC § 1369.520 - [SUMMARY] As of January 1, 2006**

1. If an Association, owner or member of an Association seeks either:

**A.** Declaratory or injunctive relief; or

**B.** Declaratory or injunctive relief and a claim for \$5,000 or less, including Association assessments concerning the enforcement of the governing documents; the parties shall submit their dispute to Alternative Dispute Resolution (ADR), such as mediation or arbitration. A Request for Resolution ("Request") begins the process and it shall include:

1) A description of the dispute;

2) A request for ADR

3) Notice that the party receiving the Request is required to respond within thirty (30) days or the Request will be deemed rejected.

**C.** This does not apply to small claims action.

**D.** Except as otherwise provided by law, this section does not apply to an assessment dispute.

2. A party on whom a Request for Resolution is served has 30 days following service to accept or reject the request. If a party does not accept the request within that period, the request is deemed rejected by the party.

3. If the Request is accepted, ADR shall be completed within ninety (90) days from the date of acceptance, or it can be extended by a written stipulation signed by both parties.

**"FAILURE OF A MEMBER OF THE ASSOCIATION TO COMPLY WITH THE ALTERNATIVE DISPUTE RESOLUTION REQUIREMENTS OF SECTION 1369.520 OF THE CIVIL CODE MAY RESULT IN THE LOSS OF YOUR RIGHT TO SUE THE ASSOCIATION OR ANOTHER MEMBER OF THE ASSOCIATION REGARDING ENFORCEMENT OF THE GOVERNING DOCUMENTS OR THE APPLICABLE LAW."**

**VERANO HOMEOWNERS ASSOCIATION**  
**DISCLOSURE STATEMENTS - AS REQUIRED BY STATE LAW**

**Reserve Funding - Civil Code Section 1365 (3) & (4)**

The Reserve Summary is completed to provide a plan to replace major capital assets. The estimated replacement cost and the estimated life and remaining life are obtained by the Board through actual recent experiences and/or by acquiring information from the experts in the appropriate field.

The reserve funding practices of the Association are reviewed and approved annually by the Board of Directors. An independent study of the reserve components and funding methods has been performed by the following company:

Reserve Analysis Consulting

October 2011

**“Cash Flow” Procedure for Calculating the Reserves:**

The reserve analysis is completed to provide a plan to replace major capital assets. The estimated replacement cost and the estimated life are obtained by the Board through actual recent experiences and/or by acquiring information from experts in the field.. Please note that the Replacement Funding Analysis for the 2012 fiscal year has been completed on an optional format: It is called the “Cash Flow” method. The reasoning behind this method of calculation is that as long as you have the money available when the repair and replacement expensed come due, you are 100% funded. The reserve analysis gives the expected annual expenditures for the next 30 years, the expected annual contribution to reserves and the ending balance at the end of each year. The accuracy and ability for this system to work depends on the accuracy of the scheduling of the work to be completed and the accuracy of the cost of repairs. This system is dependent on the fact that all contributions will be made in a timely fashion. It is recommended that the cash balance in reserves never be allowed to drop below an amount equal to or greater than one year’s contribution amount.

**“Straight Line” Procedure for Calculating the Reserves:**

For the purpose of the report and summary the amount of reserves needed to be accumulated for a component at a given time shall be computed as the current cost of replacement or repair multiplied by the number of years the component has been in service divided by the useful life of the component. This report includes, but is not limited to, reserve calculations made using the formula described in paragraph (4) of sub-division (b) of section 1365.2.5 of the Davis-Stirling Act.

**Board Meeting Minutes:**

**Civil Code Section 1363** requires that the Homeowners be advised of their right to receive a copy or summary of minutes of Board of Directors meetings. Copies of summaries or minutes are available upon written request. All requests should be submitted in writing to the Management Company. Request must include specific meeting dates desired and the appropriate distribution fee. See attached fee schedule for costs.

**Documents Requests**

All documents requests must be in writing, and applicable charges are payable in advance. See attached Pricing & Fee schedule for costs.



# Sinclair Insurance

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## To The Property Owners Of

### Verano HOA

#### INSURANCE DISCLOSURE PURSUANT TO CIVIL CODE SECTION 1365

##### A. GENERAL LIABILITY INSURANCE

- Name of Insurer: Farmers-Truck Insurance Exchange Policy # 60478 06 09
- Effective Date of Policy: 12-10-2010 to 12-10-2011
- Limits of Liability: \$1,000,000 per Occurrence/\$2,000,000 Annual Aggregate
- General Liability Deductible: None
- Did the Agent/Broker assist the Association in the development of the General Liability Policy Limits? Yes
- If yes, were the recommendations of the Insurance Agent/Broker followed? Yes

##### B. DIRECTORS & OFFICERS LIABILITY INSURANCE

- Name of Insurer: Farmers-Truck Insurance Exchange Policy # 60478 06 09
- Effective Date of Policy: 12-10-2010 to 12-10-2011
- Limits of Liability: \$1,000,000 per Loss/\$1,000,000 Each Policy Year
- Deductible: \$1,000

##### C. UMBRELLA LIABILITY INSURANCE (Excess of A and B Limits)

- Name of Insurer: Farmers-Truck Insurance Exchange Policy # 60478 06 12
- Effective Date of Policy: 12-10-2010 to 12-10-2011
- Limits of Liability: \$2,000,000 per Occurrence/ \$2,000,000 Annual Aggregate
- SIR Limit \$ 10,000

##### D. PROPERTY INSURANCE

- Name of Insurer: Farmers-Truck Insurance Exchange Policy # 60478 06 09
- Effective Date of Policy: 12-10-2010 to 12-10-2011
- Property Coverage Limits: \$287,000
- Property Coverage Deductible: \$1,000
- Person or Entity responsible to pay the Property Insurance Deductible in the event of a Loss: Association or Owner
- Does the Property Insurance extend to the Real Property Improvements of Separate Interest? NO

##### E. FIDELITY BOND INSURANCE

- Name of Insurer: Farmers-Truck Insurance Exchange Policy # 60478 06 09
- Effective Date of Policy: 12-10-2010 to 12-10-2011
- Limits of Coverage: \$50,000
- Deductible: \$1,000

# Sinclair Insurance

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Verano HOA

## INSURANCE DISCLOSURE REQUIREMENTS (Chapter 396) S.B. 1535

This summary of the Associations policies of insurance provides only certain information, as required by subdivision (e) of Section 1365 of the Civil Code and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any Association member may, upon request and provision of reasonable notice, review the Associations insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the Association maintains the policies of insurance specified in this summary, the Associations policies of insurance may not cover your property, including personal property or, real property improvements to or around your dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if the loss is covered, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association members should consult with their individual insurance broker or agent for appropriate additional coverage.

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(888) 803-1790 Toll Free Phone & Fax  
License Number 0773599

## ASSOCIATION INFORMATION

BOARD OF DIRECTORS CONTACT:	Board of Directors
ASSOCIATION NAME:	Verano HOA - 3yr. Update 2012
ADDRESS:	Verano Court
CITY, STATE, ZIP:	San Jose, CA
PHONE NUMBER:	
EMAIL:	

## PROPERTY INFORMATION

BEGINNING YEAR OF STUDY:	2012	NUMBER OF UNITS IN PROJECT:	54
YEAR CONSTRUCTED:	1990	NUMBER OF BUILDINGS ANALYZED:	0
NUMBER OF CONSTRUCTION PHASES:	1	YEAR ENDING DATE:	12/31
YEAR OF LAST PHYSICAL INSPECTION:	2011		
PERFORMED BY:	Reserve Analysis Consulting, L.L.C.		
YEAR OF NEXT PHYSICAL INSPECTION:	2014 (as required by the Davis-Stirling Act - 1997)		
RESERVE STUDY PREPARER:	Reserve Analysis Consulting, L.L.C. 3030 Bridgeway, Suite 330 Sausalito, California 94965 Casey O'Neill (415) 289-7443 FAX (415) 332-7801 caseyo@reserveanalysis.com		
CURRENT PROPERTY MANAGER:	Ms. Wendy Wazenkewitz Cornerstone Community Management 1800 Hamilton Ave., Suite 210 San Jose, CA 95125-5635 (408) 448-3080		
CURRENT ACCOUNTANT:			

## RESERVE ACCOUNT INFORMATION

2011 ANNUAL RESERVE CONTRIBUTION:	\$31,320	2012 ANNUAL RESERVE CONTRIBUTION:	\$32,338
2011 MONTHLY RESERVE CONTRIBUTION:	\$2,610	2012 MONTHLY RESERVE CONTRIBUTION:	\$2,695
2011 UNIT PER MONTH CONTRIBUTION:	\$48.33	2012 UNIT PER MONTH CONTRIBUTION:	\$49.90
2011 ACTUAL SPECIAL ASSESSMENT:	N/A	2012 PROPOSED SPECIAL ASSESSMENT:	\$0
2011 TOTAL DOLLARS TO BE 100% FUNDED:	\$109,610	REQUESTED MINIMUM BALANCE:	N/A
2011 ACTUAL DOLLARS IN RESERVE FUND:	\$235,689	2012 PROJECTED BEGINNING YEAR BALANCE:	\$235,689
2011 PER UNIT UNDERFUNDED:	\$0	2012 PROJECTED REPLACEMENT EXPENSES:	\$17,535
2011 CALCULATED PERCENT FUNDED:	100.00%	ASSUMED LONG-TERM INFLATION RATE:	3.00%
CURRENT AVG. ACCOUNT INTEREST RATE:	0.30%	ASSUMED LONG-TERM INTEREST RATE:	2.00%

**LEGAL REQUIREMENTS**

Identify the major components to be included.  
Establish reasonable life of all components.  
Establish remaining life of all components.  
Project estimated cost of all repairs.  
Project year in which repairs are to occur.  
Prepare Statement of Methodology.

**SCOPE OF STUDY**

The time frame covered by this analysis is from 2012 through 2041. These are the beginning and ending points for all repairs and funding calculations included in this study.

**STATEMENT OF RESERVE STUDY METHODOLOGY**

The components included in this analysis were identified by age, quantity and type. Upon completion of the component list and the Reserve Fund Requirement Analysis, the report was presented to the Homeowner Association's Board for approval. The following sources were used, when possible, to make our determinations:

- Original plans and specifications.
- Original contractors, maintenance contractors and vendors.
- Current contractors, maintenance contractors and vendors.
- Association maintenance staff.
- Association management.
- Independent subcontractors.
- In-house quantity surveyor.

While gathering this information there were some assumptions made regarding existing conditions, future conditions and additional circumstances that may occur that would effect the cost of repairs. Some of these assumptions may come true and others may not, therefore, the cost of repairs and life of certain components could vary substantially. Life expectancies of all components were based on industry standard experiences, and on the components being in reasonable and ordinary condition. Items that were not in such condition are identified in the Reserve Study.

All component conditions were based on visual inspection. There was no disassembly of components or demolition involved. This report does not address any factory or product defects or any damage due to improper maintenance, system design, or installation. Its also assumed all components will receive reasonable maintenance for their remaining life.

Only components which met the following criteria were included in this report.  
The component maintenance is the responsibility of the Association.  
The component is not covered by the Associations Annual Operating Budget.  
The components estimated useful life is greater than one year.  
The components remaining estimated useful life is less than 30 years. (Provided its performing to standards)  
The replacement cost of all components included in this report is based on current repair or replacement costs.

In order to determine the annual Reserve contributions which will be required, a Fund Balance Methodology was performed. The premise of this replacement cost projection is to ensure a positive cash balance in the Reserve Fund Account which will enable the Association to fulfill its responsibility for maintaining the common area components. It is equally important that a positive cash fund be maintained without relying on Special Assessments or overfunding of Reserves. The initial inflation rate used is based upon a specific construction industry index. The Association's current rate of return on it's reserve account(s) is used for this study.

Based on the fact we have no knowledge or control over costs in the future, we would advise the Association to have the Reserve Study reviewed on an annual basis and make any necessary adjustments regarding component performance and their respective replacement costs.

**3.00 RESERVE STUDY COMPONENT SCHEDULE & PERCENT FUNDED REQUIREMENT**

**STEPS FOR DETERMINING PERCENT FUNDED:**

- Step 1: Calculate for each component a required contribution on a "straight-line" funding methodology.  
(total component cost divided by the life expectancy of the component)
- Step 2: Calculate the required dollars in Reserves for each component.  
(required annual contribution multiplied by the components life in service)
- Step 3: Total the required dollars for each component to arrive at "required dollars in bank".
- Step 4: Divide actual dollars in bank by required dollars in bank to arrive at percent funded calculation.

This report includes, but is not limited to\*, reserve calculations made using the formula described in paragraph (4) of sub-division (b) of section 1365.2.5 of the Davis-Stirling Act.

(4) For the purpose of the report and summary, the amount of reserves needed to be accumulated for a component at a given time shall be computed as the current cost of replacement or repair multiplied by the number of years the component has been in service divided by the useful life of the component. **This shall not be construed to require the board to fund reserves in accordance with this calculation.**

\* The future funding requirements shown on page 9:00 A & B of this Reserve study are derived by cash flow funding calculations.

Code #	Component Description	Year New	Useful Life	Remaining Life	Total Cost	Annual Contrib.	2011 Total Req'd in Bank
1.00	<b>ROADS</b>						
1.01	Asphalt Sealing	2008	5	1	\$5,200	\$1,040	\$3,120
1.02	Asphalt Repairs	2008	5	1	\$1,500	\$300	\$900
1.03	Asphalt Major Repair	1988	30	6	\$17,948	\$598	\$13,760
1.04	Asphalt Replacement	1988	60	36	\$71,792	\$1,197	\$27,520
2.00	<b>CONCRETE &amp; PAVERS</b>						
2.01	Annual Repair Allowance	2011	1	0	\$1,000	\$1,000	\$0
2.02	Future Replacement Allowance	2000	15	3	\$5,000	\$333	\$3,667
3.00	<b>SIGNAGE &amp; FENCING</b>						
3.01	Miscellaneous Signage Upgrade	1988	25	1	\$1,250	\$50	\$1,150
3.02	Iron Fence @ End of Verano Cul-De-Sac (w/ 2 Gates)	2011	30	29	\$10,955	\$365	\$0
4.00	<b>ELECTRICAL</b>						
4.01	Street Light 2 Head Fixtures	2010	20	18	\$4,201	\$210	\$210
4.02	Street Light Poles	2006	40	34	\$2,000	\$50	\$250
4.03	Street Light Poles	1988	40	16	\$4,000	\$100	\$2,300
4.04	Driveway Column Light Fixtures	1988	25	1	\$5,400	\$216	\$4,968
5.00	<b>LANDSCAPE &amp; IRRIGATION</b>						
5.01	Irrigation Controllers	2008	15	11	\$1,600	\$107	\$320
5.02	Irrigation Controllers	1988	15	-9	\$3,200	\$213	\$3,200
5.03	Irrigation Equipment Replacement Allowance	2011	1	0	\$500	\$500	\$0
5.04	Backflow Prevention	1988	30	6	\$1,650	\$55	\$1,265
5.05	Tree Care	2011	1	0	\$10,000	\$10,000	\$0
5.06	Planting Enhancement	2011	1	0	\$2,000	\$2,000	\$0
6.00	<b>PAINT ENTIRE SITE -</b>						
6.01	Paint Stucco Components	2008	10	6	\$70,200	\$7,020	\$21,060
6.02	Paint Wood/Metal Components	2008	5	1	\$43,200	\$8,640	\$25,920
6.03	Paint Iron Fence @ End of Verano Cul-De-Sac	2011	10	9	\$825	\$83	\$0

Total Value of Components:	<u>\$263,421</u>
Annual Component Contribution:	<u>\$34,077</u>
Total Dollars Required:	<u>\$109,610</u>
Actual Dollars In Reserve Fund:	<u>\$235,689</u>
Current Fund Deficiency:	\$0
Current Per Unit Deficiency:	\$0
Percent Funded:	<u>100.00%</u>
(Actual dollars/Total dollars Required)	

While gathering information for this Reserve Analysis, there were some assumptions made regarding existing conditions, future conditions and additional circumstances, that may occur that affect the cost of repairs. Some of these assumptions may come true and others may not, therefore, the cost of repairs and life of certain components could vary substantially. Life expectancies of all components are based on industry standard experiences, and on the component being in reasonable and properly maintained condition.

All component conditions were based on a visual inspection only as required by the Davis-Stirling Act. This component analysis is a statistical analysis of the components for which the Contractee has responsibility and does not employ methods used for forensic or defect investigation or actual construction. This report does not address any factory or product defects or any damage due to improper maintenance, system design, or installation. It also assumed that all components would receive reasonable maintenance for their remaining lives.

Component useful life and remaining life projections are based on industry standards, manufacturer information, date of installation and maintenance information provided by the Contractee and/or its management or staff. Each component's condition, life expectancy and replacement cost evaluations were based on visual inspections only. Inspections were limited to areas accessible to inspectors. When components are not accessible, assumptions will be made based on available component statistical information.

Many associations are experiencing some siding failures that cannot be investigated without destructive testing. This report includes a siding replacement allowance coinciding with the paint cycle for incidental repairs but does not account for major siding replacement. We would recommend that this association's Board of Directors engage an appropriate, professional expert to do an in-depth inspection of the siding to determine its condition and likely useful life. This information, specifications and projected costs for major siding replacement will then be incorporated into the next Reserve Study update.

Because of these restrictions, we would recommend that the Board seek appropriate, expert inspection (as it deems necessary), testing and opinions for the following areas of concern. These may include but are not limited to:

- A. Defective construction and component installation.
- B. Dry Rot damage.
- C. Pest infestation.
- D. Mold infestation.
- E. Moisture penetration.
- F. Roof inspections and repairs.
- G. Balcony, deck and stair condition.
- H. Siding and Trim condition.
- I. Window and sliding glass door installation.

**PROPERTY DESCRIPTION:**

Verano is a 54-member association located in San Jose, Ca.

The association is responsible for all components as defined by its CC&R's.

**PROPERTY CONDITION:**

The Property is generally in good to fair condition.

For specific details on component costs, quantities and condition please refer to the accompanying Component Data and Component Notes pages.

**FUNDING ANALYSIS:**

Refer to Section, RESERVE FUND CASH PROJECTIONS for detailed information.

We recommend that the association review and update this Reserve Analysis on an annual basis to make adjustments for component expenditures and interest and inflation rates.

## 6.00

## RESERVE FUNDING PLAN

2011 Average unit per month reserve contribution = \$48.33

2011 Total annual reserve contribution \*1 = \$31,320

DESCRIPTION - 1ST 10 YEARS	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Projected Beginning Fund Balance	\$235,689	\$253,558	\$213,773	\$236,063	\$253,497	\$277,651	\$302,826	\$151,767	\$176,925	\$203,193
Proposed percentage increase	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
Proposed unit per month dollar increase	\$1.57	\$1.62	\$1.67	\$1.73	\$1.79	\$1.84	\$1.90	\$1.96	\$2.03	\$2.09
Proposed average unit/month contribution	\$49.90	\$51.53	\$53.20	\$54.93	\$56.71	\$58.56	\$60.46	\$62.43	\$64.46	\$66.55
Proposed Total Annual Contribution *1	\$32,338	\$33,389	\$34,474	\$35,594	\$36,751	\$37,946	\$39,179	\$40,452	\$41,767	\$43,124
Does increase require membership vote?										
Proposed Avg. Special Assess Per Unit	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Proposed Total Special Assessment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Does special assessment require vote?										
Income from other sources	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserve Fund Available	\$268,027	\$286,947	\$248,247	\$271,658	\$290,248	\$315,597	\$342,005	\$192,220	\$218,692	\$246,317
Proposed inflated yearly expenditures	\$17,535	\$75,759	\$15,038	\$21,226	\$15,954	\$16,433	\$192,073	\$17,433	\$17,956	\$19,625
Balance after expenditures	\$250,492	\$211,188	\$233,209	\$250,431	\$274,294	\$299,164	\$149,932	\$174,786	\$200,736	\$226,692
Interest on balance after tax	\$3,066	\$2,585	\$2,854	\$3,065	\$3,357	\$3,662	\$1,835	\$2,139	\$2,457	\$2,775
Minimum requested balance	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Percent Funded (if implemented) *2	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Projected Year Ending Balance *3	\$253,558	\$213,773	\$236,063	\$253,497	\$277,651	\$302,826	\$151,767	\$176,925	\$203,193	\$229,467

DESCRIPTION - 2ND 10 YEARS	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Projected Beginning Fund Balance	\$229,467	\$258,063	\$212,127	\$242,314	\$273,818	\$306,688	\$335,675	\$159,704	\$194,323	\$213,838
Proposed percentage increase	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
Proposed unit per month dollar increase	\$2.16	\$2.23	\$2.31	\$2.38	\$2.46	\$2.54	\$2.62	\$2.71	\$2.79	\$2.88
Proposed average unit/month contribution	\$68.71	\$70.95	\$73.25	\$75.63	\$78.09	\$80.63	\$83.25	\$85.95	\$88.75	\$91.63
Proposed Total Annual Contribution *1	\$44,526	\$45,973	\$47,467	\$49,010	\$50,603	\$52,247	\$53,945	\$55,698	\$57,509	\$59,378
Does increase require membership vote?										
Proposed Avg. Special Assess Per Unit	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Proposed Total Special Assessment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Does special assessment require vote?										
Income from other sources	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserve Fund Available	\$273,992	\$304,036	\$259,594	\$291,324	\$324,421	\$358,935	\$389,621	\$215,402	\$251,831	\$273,216
Proposed inflated yearly expenditures	\$19,050	\$94,474	\$20,210	\$20,816	\$21,441	\$27,319	\$231,848	\$23,429	\$40,579	\$26,375
Balance after expenditures	\$254,942	\$209,562	\$239,384	\$270,507	\$302,980	\$331,616	\$157,773	\$191,973	\$211,252	\$246,841
Interest on balance after tax	\$3,120	\$2,565	\$2,930	\$3,311	\$3,708	\$4,059	\$1,931	\$2,350	\$2,586	\$3,021
Minimum requested balance	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Percent Funded (if implemented) *2	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Projected Year Ending Balance *3	\$258,063	\$212,127	\$242,314	\$273,818	\$306,688	\$335,675	\$159,704	\$194,323	\$213,838	\$249,862

DESCRIPTION - 3RD 10 YEARS	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Projected Beginning Fund Balance	\$249,862	\$289,063	\$231,320	\$272,816	\$316,144	\$361,373	\$408,573	\$163,621	\$211,381	\$261,292
Proposed percentage increase	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
Proposed unit per month dollar increase	\$2.98	\$3.07	\$3.17	\$3.28	\$3.38	\$3.49	\$3.61	\$3.73	\$3.85	\$3.97
Proposed average unit/month contribution	\$94.61	\$97.69	\$100.86	\$104.14	\$107.52	\$111.02	\$114.62	\$118.35	\$122.20	\$126.17
Proposed Total Annual Contribution *1	\$61,307	\$63,300	\$65,357	\$67,481	\$69,674	\$71,939	\$74,277	\$76,691	\$79,183	\$81,757
Does increase require membership vote?										
Proposed Avg. Special Assess Per Unit	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Does increase require membership vote?										
Does special assessment require vote?										
Income from other sources	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Reserve Fund Available	\$311,169	\$352,363	\$296,678	\$340,297	\$385,819	\$433,312	\$482,850	\$240,311	\$290,564	\$343,049
Proposed inflated yearly expenditures	\$25,602	\$123,840	\$27,161	\$27,976	\$28,815	\$29,679	\$321,208	\$31,487	\$32,431	\$62,553
Balance after expenditures	\$285,568	\$228,523	\$269,517	\$312,321	\$357,004	\$403,633	\$161,642	\$208,825	\$258,133	\$280,496
Interest on balance after tax	\$3,495	\$2,797	\$3,299	\$3,823	\$4,370	\$4,940	\$1,978	\$2,556	\$3,160	\$3,433
Minimum requested balance	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Percent Funded (if implemented) *2	100.00%	100.00%	100.00%	100.00%	99.57%	98.00%	83.06%	85.03%	86.19%	85.27%
Projected Year Ending Balance *3	\$289,063	\$231,320	\$272,816	\$316,144	\$361,373	\$408,573	\$163,621	\$211,381	\$261,292	\$283,929



**Verano HOA - 3yr. Update 2012  
 For Budget Year: 2012  
 ASSESSMENT and RESERVE FUNDING DISCLOSURE SUMMARY**

Sec. 2. Section 1365.2.5  
 (a)

- (1) The current regular assessment per ownership interest is \$ **162.00** per month.  
 Note: If assessments vary by the size or type of ownership interest, the assessment applicable to this ownership interest may be found on page \_\_\_\_\_ of the Pro Forma Budget.
- (2) Additional regular or special assessments that have already been scheduled to be imposed or charged, regardless of the purpose, if they have been approved by the board and/or members:

Date assessment will be due	Amount per ownership interest per year:	Purpose of assessment
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
<b>TOTAL</b>	_____	_____

**NOTE:** If assessments vary by the size or type of ownership interest, the assessment applicable to the ownership interest may be found on page \_\_\_\_\_ of the attached Pro Forma Budget. These assessments might be for purposes outside the scope of the current Reserve Study and have been included by the party preparing the association's Pro Forma Operating Budget.

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

**Yes**

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

**Approximate date assessment will be due:** \_\_\_\_\_ **Amount per ownership interest per year:** \_\_\_\_\_

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

(6) Based on the method of calculation in paragraph (4) of subdivision (b) of Section 1365.2.5, the estimated amount required in the reserve fund at the end of the current fiscal year is \$ **109,610** based in whole or in part on the last reserve study or update prepared by **Reserve Analysis Consulting, LLC** as of **October, 2011**. The projected reserve fund cash balance at the end of the current fiscal year is \$ **235,689** , resulting in reserves being **100.00%** funded at this date. If an alternate, but generally accepted, method of calculation is also used, the required reserve amount is \$ N/A .

**Verano HOA - 3yr. Update 2012**

**For Budget Year: 2012**

(7.a.) Based on the method of calculation in paragraph (4) of subdivision (b) of Section 1365.2.5 of the Civil Code, the estimated amount required in the reserve fund at the end of each of the next five budget years is \$\* See Below, and the projected reserve fund cash balance in each of those years, taking into account only assessments already approved and other known revenues, is \$\*\* See Below, leaving the reserve at \*\*\* See Below percent funding.

Year	2012	2013	2014	2015	2016
* Estimated Amount Required in Fund	\$126,774	\$93,524	\$120,197	\$140,824	\$168,208
** Proj. Reserve Balance (ALREADY APPROVED)	\$249,932	\$205,871	\$222,560	\$233,081	\$248,903
*** Percent Funded	100.00%	100.00%	100.00%	100.00%	100.00%

(7.b.) If the reserve funding plan approved by the association is implemented, the projected reserve fund cash balance in each of those years will be \$\*\*\*\* See Below leaving the reserve at \*\*\*\*\* See Below percent funding.

Year	2012	2013	2014	2015	2016
* Estimated Amount Required in Fund	\$126,774	\$93,524	\$120,197	\$140,824	\$168,208
**** Proj. Reserve Balance (IF IMPLEMENTED)	\$253,558	\$213,773	\$236,063	\$253,497	\$277,651
***** Percent Funded	100.00%	100.00%	100.00%	100.00%	100.00%

**NOTE:** The financial representations set forth in this summary are based on the best estimates of the preparer at that time. The estimates are subject to change. **At the time this summary was prepared, the assumed long-term before-tax interest rate earned on reserve funds was 2 percent per year, and the assumed long-term inflation rate to be applied to major component repair and replacement costs was 3 percent per year.**

(b) For the purposes of preparing a summary pursuant to this section:

(1) "Estimated remaining useful life" means the time reasonably calculated to remain before a major component will require replacement.

(2) "Major component" has the meaning used in Section 1365.5.

Components with an estimated remaining useful life of more than 30 years may be included in a study as a capital asset or disregarded from the reserve calculation, so long as the decision is revealed in the reserve study report and reported in the Assessment and Reserve Funding Disclosure Summary.

(3) The form set out in subdivision (a) shall accompany each pro forma operating budget or summary thereof that is delivered pursuant to this article. The form may be supplemented or modified to clarify the information delivered, so long as the minimum information set out in subdivision (a) is provided.

(4) For the purpose of the report and summary, the amount of reserves needed to be accumulated for a component at a given time shall be computed as the current cost of replacement or repair multiplied by the number of years the component has been in service divided by the useful life of the component. This shall not be construed to require the board to fund reserves in accordance with this calculation.

**Further Notes:** Please read the General Reserve Study Notes on page 4.00 and the Narrative Reserve Study Notes on Page 5 of this Financial Summary for further recommended Board actions and disclosures.

## Homeowner Pricing & Fee Schedule

The following pricing schedule makes available to homeowners the costs that may be incurred when requesting additional information and documents and when selling and re-financing their property. All requests must be in writing and accompanied by full payment in advance.

### UNIT SALE DOCUMENTS PACKAGE \$250.00\*

Includes: Articles of Incorporation, By-Laws, CC&Rs, Rules & Regulations, if any, Operating Budget (current & previous year), & Reserve Analysis, most current fiscal year-end Financial Statement, & Architectural Disclosure, if any, minutes from the last twelve (12) months, newsletters from the last twelve (12) months, and our in-house one-page Certification form which includes Tenant/Owner ratio, account status & Demand Statement, Litigation Status, and Insurance Carrier information.

HOA Certification Statement**	\$75.00 first page, plus \$50.00 for each additional page
Homeowner Demand Statement	\$50.00
Articles of Incorporation	\$15.00
By Laws	\$25.00
CC&Rs	\$60.00
Budget & Reserve Summary	\$7.00
Year-End Financial Statement	\$10.00
Meeting Minutes, current year	\$5.00 ea month
Meeting Minutes, previous year	\$6.00 ea month
Meeting Minutes, 2 yrs & older	\$11.00 ea month
Newsletters	\$5.00 ea
Rules & Regulations (if available)	\$15.00
Litigation Disclosure	\$45.00
Statement of Owner/Tenant ratio	\$25.00
Insurance Carrier Information***	\$10.00
Reserve Study	\$30.00
Transfer fee	\$175.00

\*2-day Rush Request, additional charge of \$50.00  
 Overnight Rush Request, additional charge of \$75.00  
 Same Day Rush Service, additional \$100.00

\*\*HOA Certification      Overnight Rush Fee is double the standard fee

\*\*\*Insurance information for the association is provided with the annual budget disclosure and at other times during the calendar year. Owners should keep this information handy and in a safe place for easy reference. Owners will be billed for any inquiry to the management company from any source (title company, re-finance, mortgage company, real estate agent/broker, property manager, etc.) for information pertaining to the association's insurance policy, carrier, or agent.

