

Sample Homeowners Association

Reserve Study



Prepared for Fiscal Year beginning

January 1, 2006

through

December 31, 2006

by

The Helsing Group, Inc.

1-800-4-HELSING

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Introduction

The property described in this report is a common interest development. As such, it contains areas and facilities which are owned "in common" by the members, have been conveyed to the association as common area, or are privately owned but the association has maintenance responsibility through the governing documents. As the elected governing body of the Association, the Board of Directors is responsible for ensuring its sound management and operation. One of the primary duties of the Board of Directors is the review and preparation of an annual budget.

The annual budget process must address two areas: Operating Funds and Reserve Funds. California Civil Code 1365 requires that the association review their Reserve Fund annually. Additionally, the Board of Directors must in the budget notes attest to the adequacy of the Reserve Fund. The budget notes must clearly state, in bold type:

The estimated replacement cost, estimated remaining / useful life of each component.

As of the end of the fiscal year for which the study is prepared:

- (a) The current estimate of the amount of cash reserves necessary to repair, replace, restore or maintain the major components.
- (b) The current amount of accumulated cash reserves necessary to repair, replace, restore, or maintain major components.

The percentage the accumulated cash reserve is of the estimated required reserve.

In addition, Section 1365 of the California Civil Code requires that the Board of Directors state in the budget notes whether they have "determined or anticipate that the levy of one or more special assessments will be required to repair, replace, or restore any major components or to provide adequate funds therefor."

This Reserve Study assists the Board of Directors in complying with Section 1365 of the California Civil Code by providing the information required by the code in order that the Board of Directors may carry out their fiduciary responsibilities in this budget process. Specifically, it provides:

- the legally required data to properly estimate the useful remaining life for each component,
- the financial information necessary to determine Reserve Fund requirements, percent of required funding currently on hand, and
- a recommended minimum monthly reserve contribution.

NOTE: This report provides the information necessary for the Board of Directors to make informed budget decisions. Additionally, our recommendations are our best professional judgement concerning the minimum reserve funding necessary for operating, maintaining, and repairing the property. We point out that budgeting is not an exact science because the budget analyst cannot foresee or control the future acts of the Association, its members, its board, its management, or of nature.

The ultimate budget decision (e.g. approving the budget) rests with the board of directors (or where the increase is over 20%, the decision rests with the members unless the documents impose more stringent standards). We believe this decision should be made after reviewing the professional advice contained in this report, and acting in a proper fiduciary manner to ensure the association is adequately funded.

Compilation Statement

We have compiled the accompanying Reserve Funding Analysis based upon representations made by management, the association Board of Directors, and our component inspection.

This report is for projecting future contributions, expenditures and balances relating to the association's Reserve Funds. Calculations incorporate the time value of money and the lives of individual major component items. The purpose of this report is to aid the association in properly managing their reserve funds. This report should not be used for any other purpose.

In preparing this study, a comprehensive list of major components was developed and data was compiled concerning the age and costs of these components. The results of that compilation are found in a chart entitled "Detailed Component Listing" included with this report. Certain assumptions were made concerning future inflation, current and future component costs, interest earnings, future aging, and other future events. Some of these assumptions may not materialize and unanticipated events and circumstances may occur in the future. Therefore the actual replacement costs and remaining lives may vary from this report and the variations may be material. The association is required by Section 1365 of the California Civil Code to review this funding plan annually and consider and implement necessary adjustments. The Helsing Group, its affiliates, and its licensees have no responsibility to update this report for events and circumstances occurring after the date of this report, except in cases where such updates have been purchased under contract.

Each major component item has been accounted for independently in regards to the date placed in service, current replacement cost and the remaining useful life. Once this information has been accumulated, the future replacement costs are calculated and all the reserve items are grouped together to calculate the future reserve fund balances, reserve funds required, and projected monthly contribution amounts.

We recommend this funding analysis be updated on an annual basis to take into account fluctuating rates of inflation, investment, and construction costs.

Summary of Significant Projection Assumptions and Accounting Policies

The following notes and comments are based upon the final methods, factors and options represented and used in compiling the accompanying financial presentation of this report. Only long term maintenance and replacement items with a life of over 12 months have been considered in this analysis. The following factors were used in preparing this report:

Inflation Rate: **3.64%**
Interest Rate: **4.75%**
Tax Election: **1120H**
Number of Units: **120**

Reserve Fund Balance: **\$ 32,466**

<u>Resulting Calculations</u>		
	<u>Threshold Funding</u>	<u>Full Funding</u>
Estimated Contribution - Next Year:	\$ 11,244	\$ 11,828
Average Per Unit Per Month:	\$ 7.81	\$ 8.21
Our Recommendation:	Full Funding	
Association's Decision:	Full Funding	
	<u>Simplified Method</u>	<u>Recommended Method</u>
Estimated Amount of Cash Desired:	\$ 22,606	\$ 21,978
Percent Funded:	143.62%	147.72%
<i>See Page 4 for More Information on "Percent Funded":</i>		

Special Notes

No destructive testing was undertaken, nor does this study purport to address any latent and/or patent defects or life expectancies which are abnormally short due to either improper design and/or installation or due to subsequent improper maintenance. It is assumed that all components are to be reasonably maintained for the remainder of their life expectancy.

The Beginning Balance for this report was determined by taking the 31 Dec 2004 Reserve Fund Balance furnished by the Association (\$ 8,766) and adding Jan-Dec 2005 projected Reserve Fund Assessments (\$ 23,460) and estimated interest for Jan-Dec 2005 (\$ 400). From this total, we deducted estimated taxes in the amount of \$ 160 to arrive at the estimated Beginning Balance used for this reserve study. We realize there will be expenditures made from the Reserve Fund which may affect the Beginning Balance for the future updates to this report. As we approach budget time, the Association should provide us with their estimate of the FY 2005 Reserve Fund end of year balance (taking into account expenditures and projected FY 2005 expenses) so we can provide an update and the California Disclosure Notes.

What is the Current Status of your Reserve Fund? ("Percent Funded")

A general concept behind reserve funding is that over time owners will pay their fair share for the wearing out of the components, or at least that deviations from that concept are disclosed. While the State of California does not require that common interest developments maintain reserves, it does require that the association disclose to homeowners (and homeowners in turn to potential buyers) the current status of the fund. This disclosure must include the amount of money expected to be "set aside" in the reserve fund, as well as the amount of reserve money "necessary", at the end of the fiscal year. The amount of reserve "necessary" has generally been interpreted to be the amount of money that would be on hand if owners were paying their fair share over time for the wearing out of the components. For the purpose of this report, we will refer to this figure as the "Desired Balance".

Mathematically, there are two generally accepted methods of calculating the desired balance. One simple mathematical model which will give a reasonably accurate estimate is to take the current replacement cost of each component, divide it by its total life, and then multiply that figure by the current age of the component. For example, a \$100,000 component with a 10 year life, if it was 2 years old should have \$20,000 in the reserve fund. Mathematically, this is represented by the following formula:

$$\begin{aligned} \text{Desired Balance} &= \text{Current Cost/Useful Life X Current Life} \\ &\text{or, for this example -} \\ \$20,000 &= \$100,000/10 \text{ years X } 2 \text{ years} \end{aligned}$$

The calculation indicated above is made for each component, and then added together to determine the "Desired Balance" for the fund. For your association those calculations are provided in Appendix E in a table titled "Simplified Computation of Desired Balance". The resulting "Desired Balance" is provided in the table on the next page.

While this simplified method of determining the desired balance is easy to understand, mathematically it suffers from some inaccuracies because it does not take into account the fact that the reserve fund earns interest, as well as the fact that inflation will also impact the reserve portfolio over time. Simply stated (and using our 2 year old, \$100,000 component with a 10 year useful life), we would not need to collect \$10,000 each year because that \$10,000 will earn interest. The amount of money which would need to be placed in the fund annually to offset the wearing out of this component will increase each year because that years contribution will have less time to earn interest before the end of the component's useful life. At the same time, however, inflation is working on our economy and at the end of the component's useful life we will need more than \$100,000 in order to pay for its replacement, repair, restoration or maintenance. Fortunately, it is quite easy to make computations that take the expected effects of interest and inflation on each component into account using the following formulas:

$$\text{Desired Balance} = \left(\frac{\text{Current Cost}}{\text{Useful Life}} \times \text{Current Life} \right) + \left(\frac{\text{Current Cost}}{\text{Useful Life}} \times \text{Current Life} \right) \frac{1}{(1+\text{Interest Rate})^{\text{Remaining Life}}} - \left(\frac{\text{Current Cost}}{\text{Useful Life}} \times \text{Current Life} \right) \frac{1}{(1+\text{Inflation Rate})^{\text{Remaining Life}}}$$

or, for our example and assuming 3% inflation and 5% after tax interest

$$\$17,749 = \left(\frac{\$100,000}{10 \text{ years}} \times 2 \text{ years} \right) + \left(\frac{\$100,000}{10 \text{ years}} \times 2 \text{ years} \right) \frac{1}{(1+.05)^8 \text{ years}} - \left(\frac{\$100,000}{10 \text{ years}} \times 2 \text{ years} \right) \frac{1}{(1+.03)^8 \text{ years}}$$

This calculation is also run for each component in the portfolio and then added together in order to calculate a more precise "Desired Balance" for the fund. For your association those calculations are provided in Appendix F in the table titled "Recommended Computation of Desired Balance". The resulting "Desired Balance" is also shown in the table on the next page:

The State of California also requires that the association disclose to homeowners the relationship between the amount of money set aside in the reserve fund and the amount of money that should be on hand in the reserve fund as a percentage. Specifically, it is the amount of money that is on hand divided by the desired balance for the fund. Both figures are as of the end of the fiscal year and are also displayed in the table below. Unless the after tax interest rate and the inflation rate are the same, there will be a difference in both the desired balance and the percentage of funding. Typically, after tax interest is slightly greater than inflation and therefore the desired balance is lower and the percentage of funding is greater. Occasionally, we find an association that does not put interest into the reserve fund, and in this case the desired balance may be higher and the percentage of funding lower than in the simplified method. In either case, the desired balance we recommend is more accurately reflected by the more complex formula and is our recommendation concerning what disclosure you provide homeowners.

Current Status of Reserve Fund			
Projected Reserve Balance on December 31, 2005		\$ 32,466	
	Estimated of		
	<u>Desired Balance</u>	Excess	<u>Percent Funded</u>
Recommended Method:	\$ 21,978	\$ 10,488	147.72%
Simplified Method:	\$ 22,606	\$ 9,860	143.62%

What is the Impact of the Current Status of the Fund

While the above table and preceding narrative indicate the status of the fund, the impact of that status is another issue entirely. One caution about disclosing "Percent Funding" calculations is the fact that the uninformed often try to compare associations against other associations using this percentage disclosure. Unfortunately, the "Percent Funding" calculation does not indicate the impact on current and future owners. It is possible for an association have a very low percentage of funding, and the impact is only a few dollars or cents per door per month. Conversely, it is possible for an association with a very high percentage of funding to still need significant special assessments in the near future. These anomalies can be caused by a variety of factors including the number of homes compared to the size of the reserve responsibilities, or the length of time available to replenish the fund, or both.

On the other hand, the closer any given association is to 100% funded the better off it is because the "Percent Funded" calculation does disclose whether homeowners are paying their fair share over time. The extent that the "Percent Funded" disclosure is below 100% indicates the extent that current and past homeowners have not yet paid their fair share towards the wearing out of the components. The extent that the fund is greater than 100% funded indicates the extent to which current and past homeowners have paid more than their fair share of the reserve obligation. In either case, the association will eventually either need to raise the funds to do the repairs by increased regular assessments and/or by special assessments, or it will need to either reduce assessments or hold them steady for some period of time to allow for the impact of inflation to offset the excess balance in the fund.

We can measure the impact of the status of your reserve fund by comparing it to some normalized notion of what the assessments should be if the fund happened to be exactly 100% funded. Using the simplified approach indicated above, this notional ideal assessment can be determined by taking the current cost of the component and dividing it by its useful life. Using our hypothetical two year old, \$100,000 component with a 10 year life, the notional ideal assessment would be \$10,000 for this component. As we mentioned previously, however, this simplified approach does not take into account the effects of either interest or inflation on the assessment and a more accurate formula can easily take these factors into account. That formula is:

$$\text{Assessment} = \left(\frac{\text{Current Cost}}{\text{Useful Life}} \right) + \left(\frac{\text{Current Cost}}{\text{Useful Life}} \frac{1}{(1+\text{Interest Rate})^{\text{Remaining Life}}} \right) - \left(\frac{\text{Current Cost}}{\text{Useful Life}} \frac{1}{(1+\text{Inflation Rate})^{\text{Remaining Life}}} \right)$$

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Using this formula with our hypothetical \$100,000 component we discover that the notional ideal assessment for this component is only \$8,698.19 rather than the \$10,000 the simplified methodology provides. Again these calculations need to be performed for each component in the portfolio and added together to determine this notional ideal assessment. Furthermore, since the impact on the fund is usually across several years, these calculations must be made for successive future years. These calculations are provided for the next fiscal year in the appendices titled "Recommended Computation of Desired Balance". The results of calculations for future years are provided below. All data is presented as an average assessment per unit per month (PUPM):

Impact of Fund Status on Current and Future Owners
Measured in average impact per unit per month (PUPM)

<u>Fiscal Year</u>	<u>Notional Ideal Assessment</u>	<u>Assessment Needed to Achieve/Maintain Full Funding</u>	<u>Special Assessments</u>	<u>Impact of any Underfunding</u>	<u>Projected Percent Funded</u>
2006	\$ 8.48	\$ 8.21	\$ 0.00	Fully Funded	139.54%
2007	\$ 8.78	\$ 8.51	\$ 0.00	Fully Funded	141.87%
2008	\$ 9.10	\$ 8.82	\$ 0.00	Fully Funded	198.54%
2009	\$ 9.43	\$ 9.14	\$ 0.00	Fully Funded	161.07%
2010	\$ 9.78	\$ 9.48	\$ 0.00	Fully Funded	158.30%
2011	\$ 10.13	\$ 9.82	\$ 0.00	Fully Funded	143.95%
2012	\$ 10.50	\$ 10.18	\$ 0.00	Fully Funded	139.29%
2013	\$ 10.89	\$ 10.55	\$ 0.00	Fully Funded	130.63%
2014	\$ 11.28	\$ 10.93	\$ 0.00	Fully Funded	130.72%
2015	\$ 11.69	\$ 11.33	\$ 0.00	Fully Funded	124.47%
2016	\$ 12.12	\$ 11.74	\$ 0.00	Fully Funded	122.60%
2017	\$ 12.56	\$ 12.17	\$ 0.00	Fully Funded	124.28%
2018	\$ 13.02	\$ 12.62	\$ 0.00	Fully Funded	173.27%
2019	\$ 13.49	\$ 13.07	\$ 0.00	Fully Funded	142.44%
2020	\$ 13.98	\$ 13.55	\$ 0.00	Fully Funded	138.94%
2021	\$ 14.49	\$ 14.04	\$ 0.00	Fully Funded	126.79%
2022	\$ 15.02	\$ 14.55	\$ 0.00	Fully Funded	125.02%
2023	\$ 15.56	\$ 15.08	\$ 0.00	Fully Funded	119.45%
2024	\$ 16.13	\$ 15.63	\$ 0.00	Fully Funded	117.20%
2025	\$ 16.72	\$ 16.20	\$ 0.00	Fully Funded	113.47%
2026	\$ 17.33	\$ 16.79	\$ 0.00	Fully Funded	113.07%
2027	\$ 17.96	\$ 17.40	\$ 0.00	Fully Funded	113.07%
2028	\$ 18.61	\$ 18.04	\$ 0.00	Fully Funded	122.83%
2029	\$ 19.29	\$ 18.69	\$ 0.00	Fully Funded	115.76%
2030	\$ 19.99	\$ 19.37	\$ 0.00	Fully Funded	113.89%
2031	\$ 20.72	\$ 20.08	\$ 0.00	Fully Funded	109.57%
2032	\$ 21.47	\$ 20.81	\$ 0.00	Fully Funded	108.19%
2033	\$ 22.25	\$ 21.57	\$ 0.00	Fully Funded	105.90%
2034	\$ 23.06	\$ 22.35	\$ 0.00	Fully Funded	104.99%
2035	\$ 23.90	\$ 23.17	\$ 0.00	Fully Funded	103.76%

**The above table presumes full funding in thirty years and is intended to provide a measure of the impact of any under or over funding on homeowners.
The association intends to follow the above funding plan.**

How Were Your Reserve Assessments Calculated?

Your assessment for the upcoming fiscal year was determined in order to move the association from its current state, discussed previously, toward a funding plan which fulfills a specific goal. There are three general theories of funding as follow:

Full Funding - The association wishes to move from its current position to a position where the amount of money on hand in the reserve fund is equal to the amount of money it should have on hand at that point in time as determined by one of the methodologies discussed earlier.

Threshold Funding - The association wishes to ensure that the balances on hand in the fund over some number of future years (generally thirty) remain above some threshold to allow some safety for estimate variations which will always be inherent in this type of estimating. We recommend a minimum threshold of ten percent of any given years expenditures.

Baseline Funding - The association wishes to maintain positive balances in the fund over the next thirty years. (In essence, a threshold of zero.) We never recommend this funding plan as we feel it does not provide adequate margins for the variations which are inherent, and unpredictable, in this type of estimating.

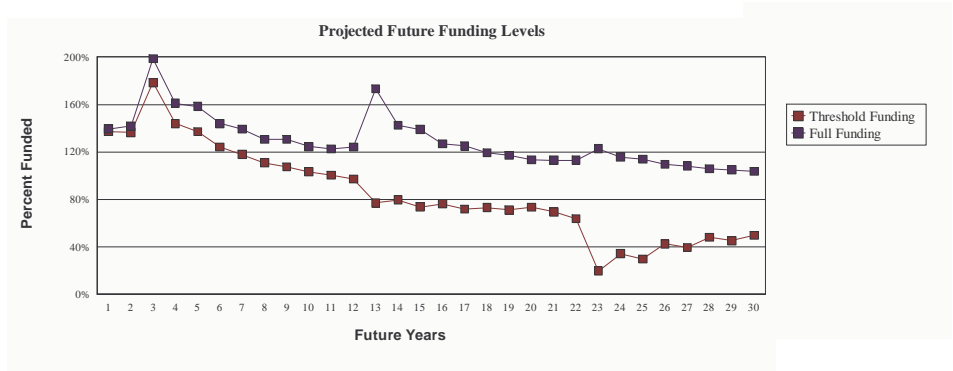
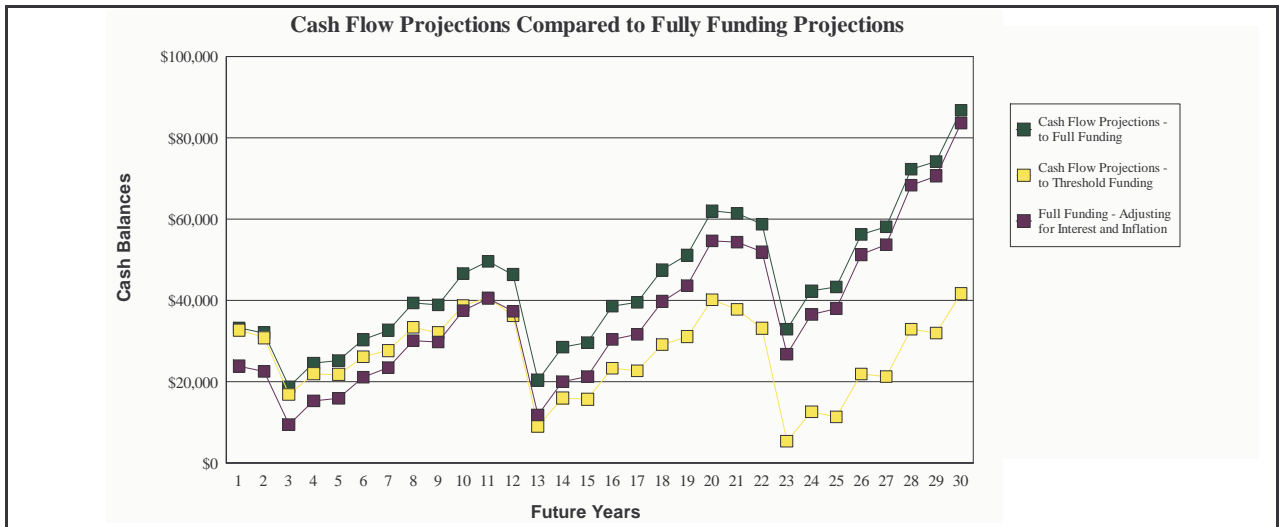
Of special note is the fact that in many instances, threshold balance estimates may be higher than full funding balances. As a general principle, we always recommend the funding plan which will provide the higher balances between threshold and full funding. However, the final decision is up to the Board of Directors. There may be many reasons the association may desire, or need, to fund to balances different from our recommendation and this is perfectly permissible as long as clear disclosure is provided to the members.

The terms full funding, threshold funding, and baseline funding all represent a goal to be reached in the future. Without regard to which goal the association reaches, the assessment is determined by projecting expenditures across future years, and then projecting assessments across the same period in order to achieve that goal. There is much flexibility here, and the variations which may be adopted are almost limitless. There is no right answer.

We have modeled two funding plans for the association, one following the concept of reaching or sustaining full funding, and the other following the concept of threshold funding. The exact figures for each of these plans are found in the respective Cash Flow Tables in the appendices to this report, and graphs comparing each funding plan to the concept of full funding explained earlier are displayed below:

Contributions Required by Funding Goals		
2005 Contribution:	\$ 23,460	Projected End of Year Balance: \$ 32,466
	<u>Contribution</u>	<u>Average PUPM*</u>
Contribution to Reach Full Funding Goal:	\$ 11,828	\$ 8.21
Contribution to Reach Threshold Funding Goal:	\$ 11,244	\$ 7.81
		*PUPM = Per Unit Per Month
Our recommendation is to fund to Full Funding as it provides for the higher cash balances between the two funding options. The association has elected to fund to Full Funding.		

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The top graph above shows the estimated ending balances across the next thirty years compared to projections of full funding across the same period. The bottom graph shows estimated "Percent Funded" calculations across the same period. The data supporting these graphs are found in the tables below.

Years	Balance	Fully Funded		Years	Balance	Fully Funded	
		To Full Funding	Threshold Funding			To Full Funding	Threshold Funding
2006	\$23,868	\$33,306 139.5%	\$32,713 137%	2021	\$30,465	\$38,628 126.8%	\$23,293 126.8%
2007	\$22,595	\$32,056 141.9%	\$30,832 136.5%	2022	\$31,653	\$39,574 125.0%	\$22,748 71.9%
2008	\$9,441	\$18,744 198.5%	\$16,849 178.5%	2023	\$39,790	\$47,529 119.4%	\$29,133 73.2%
2009	\$15,264	\$24,587 161.1%	\$21,977 144.0%	2024	\$43,651	\$51,159 117.2%	\$31,107 71.3%
2010	\$15,911	\$25,186 158.3%	\$21,818 137.1%	2025	\$54,660	\$62,026 113.5%	\$40,229 73.6%
2011	\$21,083	\$30,349 143.9%	\$26,176 124.2%	2026	\$54,362	\$61,468 113.1%	\$37,835 69.6%
2012	\$23,474	\$32,696 139.3%	\$27,669 117.9%	2027	\$51,934	\$58,723 113.1%	\$33,156 63.8%
2013	\$30,122	\$39,349 130.6%	\$33,416 110.9%	2028	\$26,811	\$32,931 122.8%	\$5,330 19.9%
2014	\$29,802	\$38,956 130.7%	\$32,065 107.6%	2029	\$36,564	\$42,328 115.8%	\$12,586 34.4%
2015	\$37,476	\$46,647 124.5%	\$38,741 103.4%	2030	\$38,042	\$43,325 113.9%	\$11,333 29.8%
2016	\$40,530	\$49,688 122.6%	\$40,707 100.4%	2031	\$51,306	\$56,216 109.6%	\$21,858 42.6%
2017	\$37,337	\$46,402 124.3%	\$36,286 97.2%	2032	\$53,776	\$58,182 108.2%	\$21,337 39.7%
2018	\$11,780	\$20,412 173.3%	\$9,095 77.2%	2033	\$68,334	\$72,363 105.9%	\$32,904 48.2%
2019	\$20,065	\$28,582 142.4%	\$15,997 79.7%	2034	\$70,665	\$74,189 105.0%	\$31,986 45.3%
2020	\$21,326	\$29,632 138.9%	\$15,709 73.7%	2035	\$83,650	\$86,791 103.8%	\$41,706 49.9%

What is a Major Component?

There are often questions concerning which components should be included in a Reserve Study. This is in part because the law does not define a major component, and Boards of Directors are allowed wide latitude in determining what items are to be included in their reserve fund, which items can be planned for in the operating budget, and which items can wait for future years before collecting monies for future repair or replacement. Basically, in order for a component to be included in a Reserve Study it should:

1. be a common area component (i.e., the governing documents for the association indicate that the association is responsible for the maintenance, repair, or restoration of the component.);
2. have a limited life; and
3. have a reasonably defined life.

If the component does not meet all three of these qualifications, it does not qualify. For example, we do not normally reserve for total concrete replacement because it is considered to have an unlimited life (although we may reserve for partial replacement if the circumstances so indicate.) We also do not reserve for light bulbs or sprinkler heads because most replacement is due to random failure, breakage, or vandalism, and although a limited life may be assumed, timing and the extent of breakage problems are difficult to quantify.

Additionally, there is often concern over how we establish the useful life and useful life remaining for a given component, as well as questions pertaining to the accuracy of our predictions. In fact, these questions are related. Basically, components can be placed into one of five categories:

1. **Cyclic Regular** - Items like asphalt sealcoating or wood painting fall into this category. Such components have a very predictable life cycle. That life cycle may vary based upon local climate, usage, exposure to weather, or similar issues, but will generally stabilize for the components of a given property and have a reasonably high degree of predictability concerning both useful and remaining life.
2. **Cyclic Irregular** - Items like deck surfaces and roofing fall into this category. These items have a normal life span great enough that climate, level of preventive maintenance, owner care, and other issues can materially affect the actual life.
3. **Predictable but Irregular Non-Catastrophic Failure** - This category includes pool pumps, spa heaters, and other items which can be expected to wear out with some predictability (regular or irregular), but do not need to be replaced until failure. With these items the association may well have accumulated the money for repair or replacement and then actually wait for failure to spend this money. This does not affect the reserve contribution prior to the expected replacement date, but once that date is reached assessments can be reduced until failure because adequate reserves are on hand.
4. **Catastrophic Failure** - With these items waiting until failure is not appropriate. A hydraulic elevator falls into this category. In these cases, a fund is built for a general replacement time frame, then a decision is made to repair or replace before failure.
5. **Outdated Design/Aesthetics** - This category refers to items where aesthetics are a major concern. Examples include light fixtures, window coverings, and other items which may be quite functional past the time they are desirable. They should be recognized and reserved for in order to keep the common area from appearing dated and unappealing.

These categories are not rigid, and in fact some components may fit into a several categories. Rather, these categories are used as general guidelines in order to help us reach a reasonable conclusion concerning life estimates and funding strategies. We typically include those items which meet the above criteria and have useful remaining lives of 30 years or less, unless the association has indicated that in their best business judgement they wish to exclude an item.

Brick Paver Reset Fund

Current Cost: \$ 6,557.00

Future Cost: \$ 7,043.04

Notes and Observations:

This is a reserve fund to reset/relevel slumped areas within driveways, courtyards, and Farrel Court. It is primarily for labor and sand; and assumes reuse of pavers. It is based upon 2% component repairs, on a 10 year life. Currently the pavers appear to be in excellent condition and we have raised the useful life accordingly. There were 3,248 LF of concrete border along the edges of the pavers, but they were all still in excellent condition and no reserves appear necessary at this time.



Maintenance Suggestions:

No Maintenance Suggestions Provided.

	Remaining			
Sub-Identifier	Life	Quantity	Current Cost	Condition
Drives and Courtyards	2 Yrs	32,785 S.F.	\$6,557.00	Fair - Appears To Be Wearing Normally

Irrigation

Current Cost: \$ 300.00

Future Cost: \$ 399.34

Notes and Observations:

There were two controllers in the courtyards near units at #451 and #459 Whisman Park Drive. All other controllers and irrigation equipment were assumed to be part of the Master Association.



Maintenance Suggestions:

Major system components are controllers, landscape valves, and backflow prevention valves. Sprinkler heads are considered an operational maintenance component. Replacement of damaged sprinkler heads and risers is considered routine operational maintenance. Underground water lines and wiring for this component is normally considered to last the life of the project.

INSPECTION AND MAINTENANCE: Periodic inspections of the irrigation and sprinkler system are necessary to conserve water and ensure that water patterns do not unnecessarily saturate building components that can be damaged by excessive water intrusion. We recommend that these periodic inspections be included in the landscape maintenance and service contract.

Sub-Identifier	Life	Quantity	Current Cost	Condition
Controller, ESP4si	8 Yrs	2 Each	\$300.00	Good - Showing Some Wear

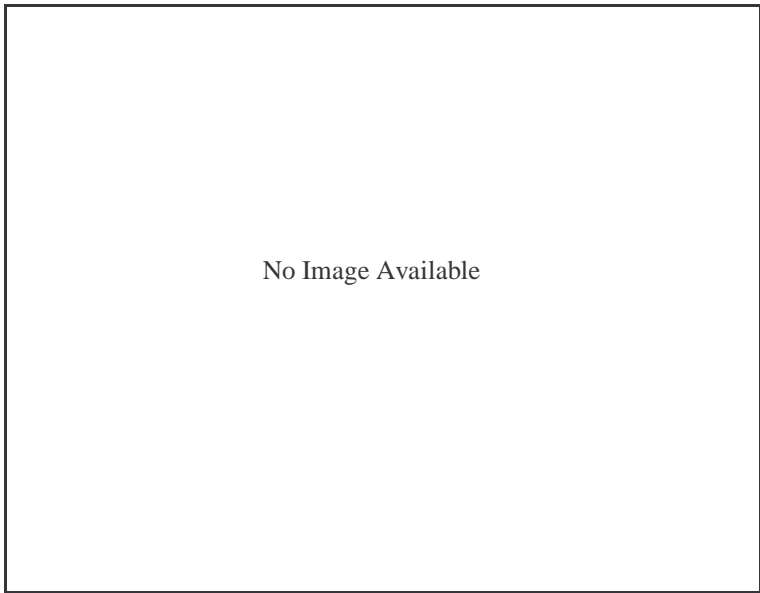
Landscape

Current Cost: \$ 16,600.00

Future Cost: \$ 17,453.22

Notes and Observations:

Large Tree Care was added based upon the 2005 HOA Budget. We have, however, based the reserves on a two year cycle rather than every year. Most associations base their reserves on major tree maintenance/trimming required every 2-3 years. The association should adjust this reserve item as historical data is accumulated. Likewise we have included a Landscape Upgrade to the reserves. We have also based it on a two year cycle, but scheduled it in between the Large Tree Care scheduled years. Again this can be adjusted based upon the historical data accumulated. This provides for landscape reserve monies to be available every year to supplement monthly operational landscape care monies.



Maintenance Suggestions:

Sub-Identifier	Life	Quantity	Current Cost	Condition
Landscape Upgrades	1 Yrs	1 Lot	\$10,000.00	Not Applicable
Large Tree Care	2 Yrs	1 Lot	\$6,600.00	Not Applicable

Lights

Current Cost: \$ 500.00

Future Cost: \$ 795.84

Notes and Observations:

These lights were documented on the original DRE, but no longer present on the property. It can be removed if the association desires..



Maintenance Suggestions:

Light fixtures are normally reserve items that require periodic replacement rather than extensive repairs or maintenance. IN ADDITION, THE ASSOCIATION SHOULD BE PARTICULARLY CONCERNED ABOUT THE SAFETY IMPLICATIONS WHICH MAY RESULT FROM INSUFFICIENT LIGHTING CAUSE BY BURNED OUT LIGHTS.

INSPECTION AND MAINTENANCE:

1. Periodic inspection should be made with all lights turned on in order to detect unserviceable or burned out lights. Cracked, broken, or missing lenses and defective gaskets can accelerate deterioration of these components.
2. Other than operational periodic cleaning and regular replacement of light bulbs, no general maintenance is required.

ADDITIONAL COMMENTS:

1. The appearance of rusted, broken, or otherwise decrepit fixtures may dictate prompt replacement of defective lights.

Sample Homeowners Association

	Remaining			
Sub-Identifier	Life	Quantity	Current Cost	Condition
Flood/Spot, Exterior	13 Yrs	4 Each	\$500.00	Good - Showing Some Wear

Mailboxes

Current Cost: \$ 9,060.00

Future Cost: \$ 23,496.35

Notes and Observations:

None



Maintenance Suggestions:

No Maintenance Suggestions Provided.

	Remaining			
Sub-Identifier	Life	Quantity	Current Cost	Condition
Mailbox, Rural Standard	13 Yrs	120 Each	\$3,600.00	Fair - Appears To Be Wearing Normally
Stand, Single, Metal	33 Yrs	6 Each	\$450.00	Fair - Appears To Be Wearing Normally
Stand, Double, Metal	33 Yrs	51 Each	\$4,590.00	Fair - Appears To Be Wearing Normally
Stand, Triple, Metal	33 Yrs	4 Each	\$420.00	Fair - Appears To Be Wearing Normally

Masonry Wall Repair Fund

Current Cost: \$ 280.20

Future Cost: \$ 290.40

Notes and Observations:

The Masonry Wall Repair Fund runs from both the sides of the Whisman Park Drive Entry along Ferguson Drive. There were 170 LF to the north of the entry and 1,231 LF running to the light railway tracks. This fund should also take care of the two pylons at the entry as necessary. There were an additional 385 LF of masonry wall along the light railway easement, but this did not appear to be Town Square Association responsibility.



Maintenance Suggestions:

No Maintenance Suggestions Provided.

	Remaining			
Sub-Identifier	Life	Quantity	Current Cost	Condition
Entry/Perimeter Wall	1 Yrs	1,401 L.F.	\$280.20	Fair - Appears To Be Wearing Normally

Paint, Stucco

Current Cost: \$ 9,456.75

Future Cost: \$ 10,527.47

Notes and Observations:

This Paint, Stucco component should also take care of the two pylons at the Whisman Park Drive Entry.



Maintenance Suggestions:

Stucco siding requires periodic color misting (fog coat) or application of paint to ensure the aesthetic value and appearance of the complex.

INSPECTION AND MAINTENANCE:

1. On a periodic basis, these areas should be inspected for casual damage and repairs made as needed.

	Remaining			
Sub-Identifier	Life	Quantity	Current Cost	Condition
Masonry Walls	3 Yrs	12,609 S.F.	\$9,456.75	Fair - Appears To Be Wearing Normally

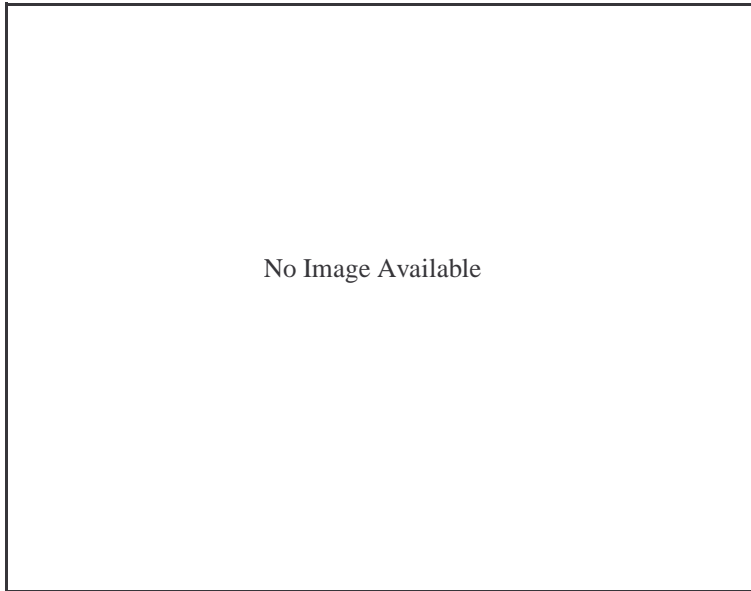
Paint, Wrought Iron

Current Cost: \$ 1,220.00

Future Cost: \$ 1,264.41

Notes and Observations:

None



Maintenance Suggestions:

On a periodic basis exterior metal needs to be inspected, rusted areas de-rusted, the areas primed and painted.

	Remaining			
Sub-Identifier	Life	Quantity	Current Cost	Condition
Mailbox Stands	1 Yrs	61 Each	\$1,220.00	Good - Showing Some Wear

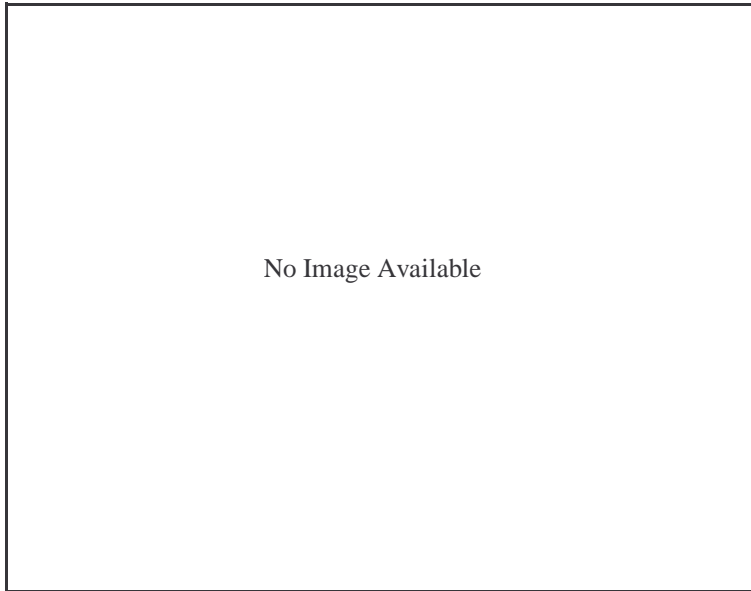
Pavement Cleaning

Current Cost: \$ 3,278.50

Future Cost: \$ 3,649.70

Notes and Observations:

None



Maintenance Suggestions:

No Maintenance Suggestions Provided.

	Remaining			
Sub-Identifier	Life	Quantity	Current Cost	Condition
Driveways, Pressure Wash	3 Yrs	32,785 S.F.	\$3,278.50	Good - Showing Some Wear

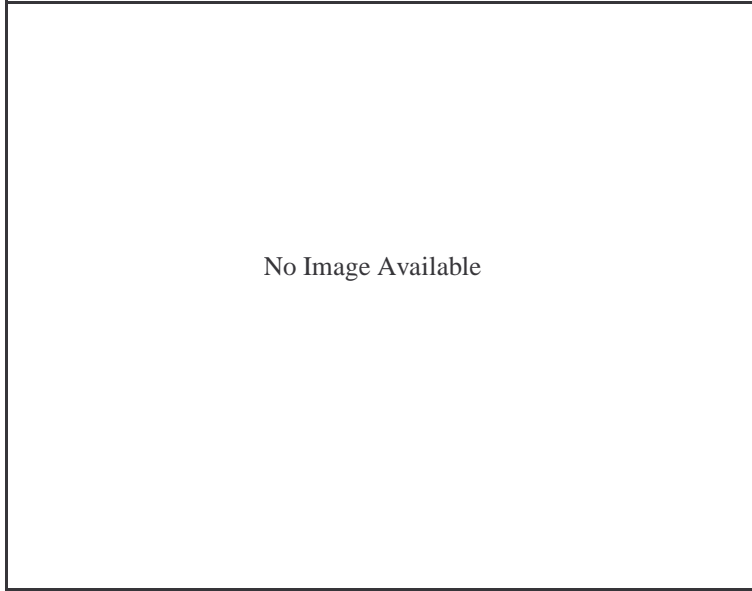
Reserve Study Update

Current Cost: \$ 1,000.00

Future Cost: \$ 1,113.22

Notes and Observations:

None



Maintenance Suggestions:

Sub-Identifier	Remaining Life	Quantity	Current Cost	Condition
Triennial Inspection	3 Yrs	1 Each	\$1,000.00	Not Applicable

Sample Homeowners Association

Detailed Component List

Reserve Component	Quantity	Unit Cost	Current Expected Remaining			Current Cost	Future Cost
			Useful Life	Useful Life	Useful Life		
Brick Paver Reset Fund							
Drives and Courtyards	32,785 S.F.	\$0.20	10	10	2	\$6,557	\$7,043
			Subtotal for Brick Paver Reset Fund :			\$6,557	\$7,043
Irrigation							
Controller, ESP4si	2 Each	\$150.00	15	15	8	\$300	\$399
			Subtotal for Irrigation :			\$300	\$399
Landscape							
Landscape Upgrades	1 Lot	\$10,000.00	2	2	1	\$10,000	\$10,364
Large Tree Care	1 Lot	\$6,600.00	2	2	2	\$6,600	\$7,089
			Subtotal for Landscape :			\$16,600	\$17,453
Lights							
Flood/Spot, Exterior	4 Each	\$125.00	20	20	13	\$500	\$796
			Subtotal for Lights :			\$500	\$796
Mailboxes							
Mailbox, Rural Standard	120 Each	\$30.00	20	20	13	\$3,600	\$5,730
Stand, Single, Metal	6 Each	\$75.00	40	40	33	\$450	\$1,464
Stand, Double, Metal	51 Each	\$90.00	40	40	33	\$4,590	\$14,935
Stand, Triple, Metal	4 Each	\$105.00	40	40	33	\$420	\$1,367
			Subtotal for Mailboxes :			\$9,060	\$23,496
Masonry Wall Repair Fund							
Entry/Perimeter Wall	1,401 L.F.	\$0.20	1	1	1	\$280	\$290
			Subtotal for Masonry Wall Repair Fund :			\$280	\$290
Paint, Stucco							
Masonry Walls	12,609 S.F.	\$0.75	10	10	3	\$9,457	\$10,527
			Subtotal for Paint, Stucco :			\$9,457	\$10,527
Paint, Wrought Iron							
Mailbox Stands	61 Each	\$20.00	4	4	1	\$1,220	\$1,264
			Subtotal for Paint, Wrought Iron :			\$1,220	\$1,264
Pavement Cleaning							
Driveways, Pressure Wash	32,785 S.F.	\$0.10	10	10	3	\$3,279	\$3,650
			Subtotal for Pavement Cleaning :			\$3,279	\$3,650
Reserve Study Update							
Triennial Inspection	1 Each	\$1,000.00	3	3	3	\$1,000	\$1,113
			Subtotal for Reserve Study Update :			\$1,000	\$1,113
			Grand Total:			\$48,252	\$66,033

Sample Homeowners Association

Estimated Expenditure Schedule 2006 to 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Brick Paver Reset Fund	\$0	\$7,043	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Irrigation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$399	\$0	\$0
Landscape	\$10,364	\$7,089	\$11,132	\$7,615	\$11,957	\$8,179	\$12,844	\$8,785	\$13,796	\$9,437
Lights	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Mailboxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Masonry Wall Repair Fund	\$290	\$301	\$312	\$323	\$335	\$347	\$360	\$373	\$387	\$401
Paint, Stucco	\$0	\$0	\$10,527	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paint, Wrought Iron	\$1,264	\$0	\$0	\$0	\$1,459	\$0	\$0	\$0	\$1,683	\$0
Pavement Cleaning	\$0	\$0	\$3,650	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserve Study Update	\$0	\$0	\$1,113	\$0	\$0	\$1,239	\$0	\$0	\$1,380	\$0
Grand Total:	\$11,919	\$14,433	\$26,735	\$7,938	\$13,751	\$9,766	\$13,204	\$9,558	\$17,245	\$9,837

Sample Homeowners Association

Estimated Expenditure Schedule 2016 to 2025

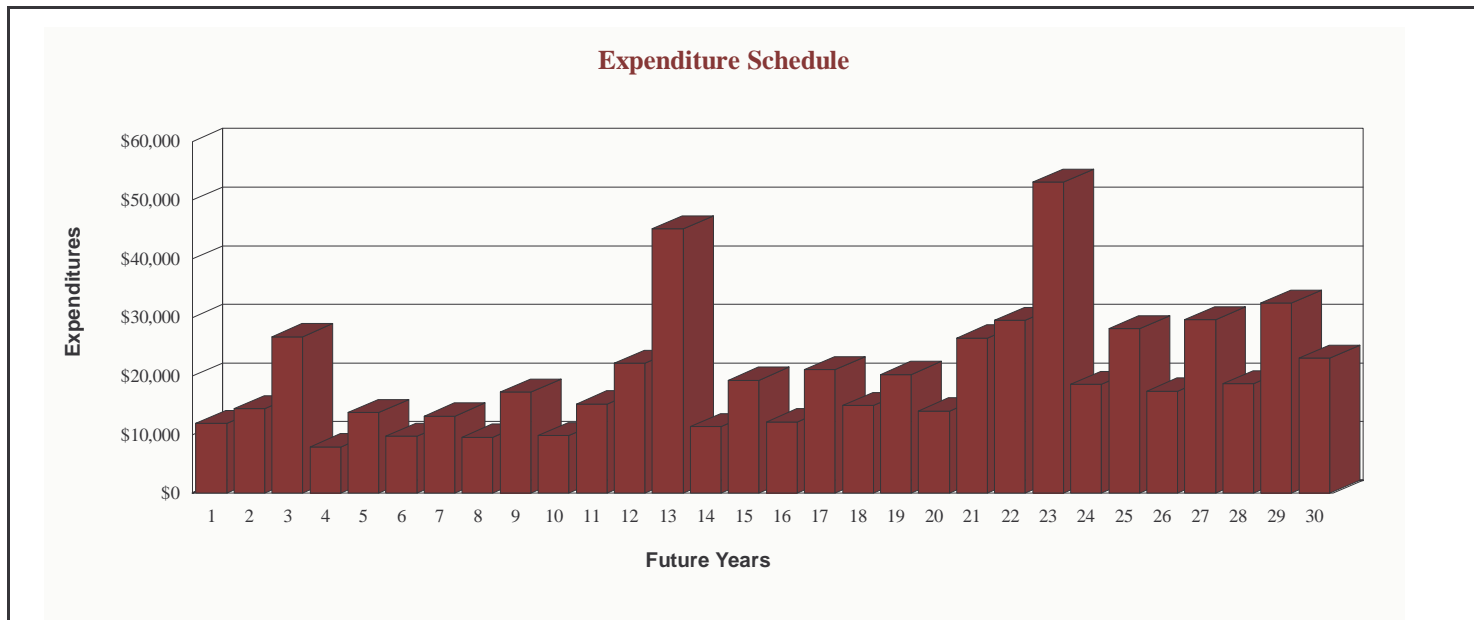
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Brick Paver Reset Fund	\$0	\$10,070	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Irrigation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Landscape	\$14,818	\$10,136	\$15,917	\$10,887	\$17,097	\$11,695	\$18,364	\$12,561	\$19,725	\$13,492
Lights	\$0	\$0	\$796	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Mailboxes	\$0	\$0	\$5,730	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Masonry Wall Repair Fund	\$415	\$430	\$446	\$462	\$479	\$496	\$515	\$533	\$553	\$573
Paint, Stucco	\$0	\$0	\$15,052	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paint, Wrought Iron	\$0	\$0	\$1,942	\$0	\$0	\$0	\$2,240	\$0	\$0	\$0
Pavement Cleaning	\$0	\$0	\$5,218	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserve Study Update	\$0	\$1,536	\$0	\$0	\$1,710	\$0	\$0	\$1,903	\$0	\$0
Grand Total:	\$15,234	\$22,172	\$45,101	\$11,350	\$19,285	\$12,191	\$21,119	\$14,998	\$20,278	\$14,065

Appendix B

Sample Homeowners Association

Estimated Expenditure Schedule 2026 to 2035

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Brick Paver Reset Fund	\$0	\$14,398	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Irrigation	\$0	\$0	\$683	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Landscape	\$21,187	\$14,493	\$22,758	\$15,567	\$24,445	\$16,721	\$26,257	\$17,960	\$28,203	\$19,292
Lights	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Mailboxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Masonry Wall Repair Fund	\$594	\$615	\$638	\$661	\$685	\$710	\$736	\$762	\$790	\$819
Paint, Stucco	\$0	\$0	\$21,521	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Paint, Wrought Iron	\$2,585	\$0	\$0	\$0	\$2,982	\$0	\$0	\$0	\$3,441	\$0
Pavement Cleaning	\$0	\$0	\$7,461	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserve Study Update	\$2,119	\$0	\$0	\$2,359	\$0	\$0	\$2,626	\$0	\$0	\$2,923
Grand Total:	\$26,485	\$29,506	\$53,061	\$18,586	\$28,112	\$17,431	\$29,618	\$18,723	\$32,434	\$23,033



Appendix B

Sample Homeowners Association

Thirty Year Cash Flow Matrix - To Full Funding

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beginning Balance	\$32,466	\$33,306	\$32,056	\$18,744	\$24,587	\$25,186	\$30,349	\$32,696	\$39,349	\$38,956
Annual Reserve Contribution	\$11,828	\$12,259	\$12,705	\$13,167	\$13,647	\$14,144	\$14,658	\$15,192	\$15,745	\$16,318
Average Per Unit Per Month	\$8.21	\$8.51	\$8.82	\$9.14	\$9.48	\$9.82	\$10.18	\$10.55	\$10.93	\$11.33
Percentage Change	-49.58%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%
Special Assessments										
Less: Expenditures	(\$11,919)	(\$14,433)	(\$26,735)	(\$7,938)	(\$13,751)	(\$9,766)	(\$13,204)	(\$9,558)	(\$17,245)	(\$9,837)
Less: Other Expenditures										
Interest Earned	\$1,540	\$1,530	\$1,189	\$1,015	\$1,165	\$1,300	\$1,476	\$1,687	\$1,833	\$2,004
Less: Tax on Interest	(\$610)	(\$606)	(\$471)	(\$402)	(\$461)	(\$515)	(\$585)	(\$668)	(\$726)	(\$794)
Net Interest	\$930	\$924	\$718	\$613	\$704	\$785	\$892	\$1,019	\$1,107	\$1,211
Ending Balance	\$33,306	\$32,056	\$18,744	\$24,587	\$25,186	\$30,349	\$32,696	\$39,349	\$38,956	\$46,647

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Beginning Balance	\$46,647	\$49,688	\$46,402	\$20,412	\$28,582	\$29,632	\$38,628	\$39,574	\$47,529	\$51,159
Annual Reserve Contribution	\$16,912	\$17,528	\$18,166	\$18,827	\$19,512	\$20,222	\$20,958	\$21,721	\$22,512	\$23,331
Average Per Unit Per Month	\$11.74	\$12.17	\$12.62	\$13.07	\$13.55	\$14.04	\$14.55	\$15.08	\$15.63	\$16.20
Percentage Change	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%
Special Assessments										
Less: Expenditures	(\$15,234)	(\$22,172)	(\$45,101)	(\$11,350)	(\$19,285)	(\$12,191)	(\$21,119)	(\$14,998)	(\$20,278)	(\$14,065)
Less: Other Expenditures										
Interest Earned	\$2,256	\$2,250	\$1,564	\$1,147	\$1,363	\$1,598	\$1,831	\$2,039	\$2,311	\$2,650
Less Tax on Interest	(\$893)	(\$891)	(\$619)	(\$454)	(\$540)	(\$633)	(\$725)	(\$808)	(\$915)	(\$1,049)
Net Interest	\$1,362	\$1,359	\$945	\$693	\$823	\$965	\$1,106	\$1,232	\$1,396	\$1,601
Ending Balance	\$49,688	\$46,402	\$20,412	\$28,582	\$29,632	\$38,628	\$39,574	\$47,529	\$51,159	\$62,026

	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
Beginning Balance	\$62,026	\$61,468	\$58,723	\$32,931	\$42,328	\$43,325	\$56,216	\$58,182	\$72,363	\$74,189
Annual Reserve Contribution	\$24,181	\$25,061	\$25,973	\$26,919	\$27,898	\$28,914	\$29,966	\$31,057	\$32,188	\$33,359
Average Per Unit Per Month	\$16.79	\$17.40	\$18.04	\$18.69	\$19.37	\$20.08	\$20.81	\$21.57	\$22.35	\$23.17
Percentage Change	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%
Special Assessments										
Less: Expenditures	(\$26,485)	(\$29,506)	(\$53,061)	(\$18,586)	(\$28,112)	(\$17,431)	(\$29,618)	(\$18,723)	(\$32,434)	(\$23,033)
Less: Other Expenditures										
Interest Earned	\$2,892	\$2,814	\$2,146	\$1,762	\$2,005	\$2,331	\$2,679	\$3,057	\$3,431	\$3,769
Less: Tax on Interest	(\$1,145)	(\$1,114)	(\$850)	(\$698)	(\$794)	(\$923)	(\$1,061)	(\$1,210)	(\$1,359)	(\$1,493)
Net Interest	\$1,746	\$1,700	\$1,296	\$1,064	\$1,211	\$1,408	\$1,618	\$1,846	\$2,073	\$2,277
Ending Balance	\$61,468	\$58,723	\$32,931	\$42,328	\$43,325	\$56,216	\$58,182	\$72,363	\$74,189	\$86,791

Sample Homeowners Association

Thirty Year Cash Flow Matrix - Threshold Funding

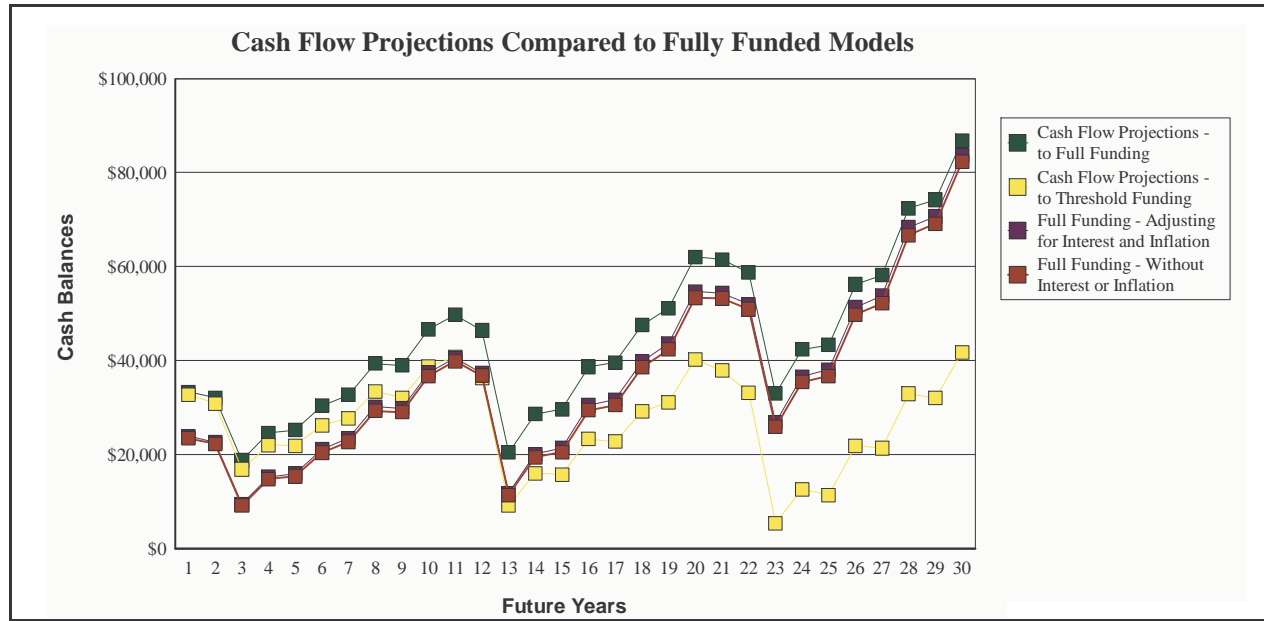
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Beginning Balance	\$32,466	\$32,713	\$30,832	\$16,849	\$21,977	\$21,818	\$26,176	\$27,669	\$33,416	\$32,065
Annual Reserve Contribution	\$11,244	\$11,653	\$12,078	\$12,517	\$12,973	\$13,445	\$13,934	\$14,442	\$14,967	\$15,512
Average Per Unit Per Month	\$7.81	\$8.09	\$8.39	\$8.69	\$9.01	\$9.34	\$9.68	\$10.03	\$10.39	\$10.77
Percentage Change	-52.07%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%
Special Assessments										
Less: Expenditures	(\$11,919)	(\$14,433)	(\$26,735)	(\$7,938)	(\$13,751)	(\$9,766)	(\$13,204)	(\$9,558)	(\$17,245)	(\$9,837)
Less: Other Expenditures										
Interest Earned	\$1,526	\$1,488	\$1,116	\$909	\$1,025	\$1,124	\$1,261	\$1,430	\$1,533	\$1,658
Less: Tax on Interest	(\$604)	(\$589)	(\$442)	(\$360)	(\$406)	(\$445)	(\$499)	(\$566)	(\$607)	(\$657)
Net Interest	\$922	\$899	\$674	\$549	\$619	\$679	\$761	\$864	\$926	\$1,001
Ending Balance	\$32,713	\$30,832	\$16,849	\$21,977	\$21,818	\$26,176	\$27,669	\$33,416	\$32,065	\$38,741

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Beginning Balance	\$38,741	\$40,707	\$36,286	\$9,095	\$15,997	\$15,709	\$23,293	\$22,748	\$29,133	\$31,107
Annual Reserve Contribution	\$16,077	\$16,662	\$17,268	\$17,897	\$18,548	\$19,224	\$19,923	\$20,649	\$21,400	\$22,179
Average Per Unit Per Month	\$11.16	\$11.57	\$11.99	\$12.43	\$12.88	\$13.35	\$13.84	\$14.34	\$14.86	\$15.40
Percentage Change	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%
Special Assessments										
Less: Expenditures	(\$15,234)	(\$22,172)	(\$45,101)	(\$11,350)	(\$19,285)	(\$12,191)	(\$21,119)	(\$14,998)	(\$20,278)	(\$14,065)
Less: Other Expenditures										
Interest Earned	\$1,860	\$1,803	\$1,063	\$588	\$742	\$913	\$1,078	\$1,215	\$1,410	\$1,670
Less Tax on Interest	(\$737)	(\$714)	(\$421)	(\$233)	(\$294)	(\$362)	(\$427)	(\$481)	(\$559)	(\$661)
Net Interest	\$1,124	\$1,089	\$642	\$355	\$448	\$552	\$651	\$734	\$852	\$1,009
Ending Balance	\$40,707	\$36,286	\$9,095	\$15,997	\$15,709	\$23,293	\$22,748	\$29,133	\$31,107	\$40,229

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Beginning Balance	\$40,229	\$37,835	\$33,156	\$5,330	\$12,586	\$11,333	\$21,858	\$21,337	\$32,904	\$31,986
Annual Reserve Contribution	\$22,986	\$23,823	\$24,690	\$25,589	\$26,520	\$27,486	\$28,486	\$29,523	\$30,598	\$31,712
Average Per Unit Per Month	\$15.96	\$16.54	\$17.15	\$17.77	\$18.42	\$19.09	\$19.78	\$20.50	\$21.25	\$22.02
Percentage Change	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%	3.64%
Special Assessments										
Less: Expenditures	(\$26,485)	(\$29,506)	(\$53,061)	(\$18,586)	(\$28,112)	(\$17,431)	(\$29,618)	(\$18,723)	(\$32,434)	(\$23,033)
Less: Other Expenditures										
Interest Earned	\$1,828	\$1,662	\$901	\$419	\$560	\$777	\$1,011	\$1,270	\$1,519	\$1,725
Less: Tax on Interest	(\$724)	(\$658)	(\$357)	(\$166)	(\$222)	(\$308)	(\$400)	(\$503)	(\$602)	(\$683)
Net Interest	\$1,104	\$1,004	\$544	\$253	\$338	\$469	\$611	\$767	\$918	\$1,042
Ending Balance	\$37,835	\$33,156	\$5,330	\$12,586	\$11,333	\$21,858	\$21,337	\$32,904	\$31,986	\$41,706

Appendix C

Thirty Year Cash Flow Matrix - Threshold Funding



Supplemental Information on Future Major Repairs and Replacements

December 31, 2005

Sample Homeowners Association

	Estimated Remaining Useful Lives	Estimated Future Replacement Cost	2006 Funding Requirements	Components of Fund Balance 12/31/2005
Brick Paver Reset Fund	2 to 2	\$7,043	\$704	\$5,634
Irrigation	8 to 8	\$399	\$10	\$298
Landscape	1 to 2	\$17,453	\$8,727	\$5,182
Lights	13 to 13	\$796	\$13	\$496
Mailboxes	13 to 33	\$23,496	\$159	\$8,991
Masonry Wall Repair Fund	1 to 1	\$290	\$290	\$0
Paint, Stucco	3 to 3	\$10,527	\$1,053	\$7,369
Paint, Wrought Iron	1 to 1	\$1,264	\$316	\$948
Pavement Cleaning	3 to 3	\$3,650	\$365	\$2,555
Reserve Study Update	3 to 3	\$2,226	\$538	\$992
Taxes		\$0	\$604	\$0
		\$67,146	\$12,779 *	\$32,466 *

*Totals may vary slightly from sum of components due to rounding. Each component total is the sum of the sub-components for that line item rounded to the nearest dollar. Final total is the sum of all sub-components rounded to the nearest dollar. Back-up data available on request.

We on occasion see associations using this report in order to calculate monthly contributions to each component. We recommend against such monthly bookkeeping entries since they serve no useful purpose. This report is intended to provide data in the manner reflected in the AICPA Audit Guidelines for use by those CPAs who desire to display the information following that guideline. Its use by the association for any other purpose is discouraged.

Sample Homeowners Association

Simplified Computation of Desired Balance

Reserve Component	Quantity	Unit Cost	Current Life	Useful Life	Current Cost	Notional	
						Ideal Assessment	Desired Balance
Brick Paver Reset Fund							
Drives and Courtyards	32,785 S.F.	\$0.20	8	10	\$6,557	\$656	\$5,246
Subtotal for Brick Paver Reset Fund :					\$6,557	\$656	\$5,246
Irrigation							
Controller, ESP4si	2 Each	\$150.00	7	15	\$300	\$20	\$140
Subtotal for Irrigation :					\$300	\$20	\$140
Landscape							
Landscape Upgrades	1 Lot	\$10,000.00	1	2	\$10,000	\$5,000	\$5,000
Large Tree Care	1 Lot	\$6,600.00	0	2	\$6,600	\$3,300	\$0
Subtotal for Landscape :					\$16,600	\$8,300	\$5,000
Lights							
Flood/Spot, Exterior	4 Each	\$125.00	7	20	\$500	\$25	\$175
Subtotal for Lights :					\$500	\$25	\$175
Mailboxes							
Mailbox, Rural Standard	120 Each	\$30.00	7	20	\$3,600	\$180	\$1,260
Stand, Single, Metal	6 Each	\$75.00	7	40	\$450	\$11	\$79
Stand, Double, Metal	51 Each	\$90.00	7	40	\$4,590	\$115	\$803
Stand, Triple, Metal	4 Each	\$105.00	7	40	\$420	\$11	\$74
Subtotal for Mailboxes :					\$9,060	\$317	\$2,216
Masonry Wall Repair Fund							
Entry/Perimeter Wall	1,401 L.F.	\$0.20	0	1	\$280	\$280	\$0
Subtotal for Masonry Wall Repair Fund :					\$280	\$280	\$0
Paint, Stucco							
Masonry Walls	12,609 S.F.	\$0.75	7	10	\$9,457	\$946	\$6,620
Subtotal for Paint, Stucco :					\$9,457	\$946	\$6,620
Paint, Wrought Iron							
Mailbox Stands	61 Each	\$20.00	3	4	\$1,220	\$305	\$915
Subtotal for Paint, Wrought Iron :					\$1,220	\$305	\$915
Pavement Cleaning							
Driveways, Pressure Wash	32,785 S.F.	\$0.10	7	10	\$3,279	\$328	\$2,295
Subtotal for Pavement Cleaning :					\$3,279	\$328	\$2,295
Reserve Study Update							
Triennial Inspection	1 Each	\$1,000.00	0	3	\$1,000	\$333	\$0
Subtotal for Reserve Study Update :					\$1,000	\$333	\$0
Grand Total:					\$48,252	\$11,509	\$22,606

Sample Homeowners Association

Recommended Computation of Desired Balance

Reserve Component	Quantity	Unit Cost	Current Life	Useful Life	Current Cost	Notional		
						Ideal Assessment	Desired Balance	
Brick Paver Reset Fund								
Drives and Courtyards	32,785 S.F.	\$0.20	8	10	\$6,557	\$609	\$5,143	
					Subtotal for Brick Paver Reset Fund :	\$6,557	\$609	\$5,143
Irrigation								
Controller, ESP4si	2 Each	\$150.00	7	15	\$300	\$18	\$131	
					Subtotal for Irrigation :	\$300	\$18	\$131
Landscape								
Landscape Upgrades	1 Lot	\$10,000.00	1	2	\$10,000	\$4,902	\$4,949	
Large Tree Care	1 Lot	\$6,600.00	0	2	\$6,600	\$3,235	\$0	
					Subtotal for Landscape :	\$16,600	\$8,137	\$4,949
Lights								
Flood/Spot, Exterior	4 Each	\$125.00	7	20	\$500	\$23	\$161	
					Subtotal for Lights :	\$500	\$23	\$161
Mailboxes								
Mailbox, Rural Standard	120 Each	\$30.00	7	20	\$3,600	\$163	\$1,158	
Stand, Single, Metal	6 Each	\$75.00	7	40	\$450	\$10	\$72	
Stand, Double, Metal	51 Each	\$90.00	7	40	\$4,590	\$105	\$730	
Stand, Triple, Metal	4 Each	\$105.00	7	40	\$420	\$10	\$67	
					Subtotal for Mailboxes :	\$9,060	\$288	\$2,026
Masonry Wall Repair Fund								
Entry/Perimeter Wall	1,401 L.F.	\$0.20	0	1	\$280	\$277	\$0	
					Subtotal for Masonry Wall Repair Fund :	\$280	\$277	\$0
Paint, Stucco								
Masonry Walls	12,609 S.F.	\$0.75	7	10	\$9,457	\$879	\$6,433	
					Subtotal for Paint, Stucco :	\$9,457	\$879	\$6,433
Paint, Wrought Iron								
Mailbox Stands	61 Each	\$20.00	3	4	\$1,220	\$294	\$906	
					Subtotal for Paint, Wrought Iron :	\$1,220	\$294	\$906
Pavement Cleaning								
Driveways, Pressure Wash	32,785 S.F.	\$0.10	7	10	\$3,279	\$305	\$2,230	
					Subtotal for Pavement Cleaning :	\$3,279	\$305	\$2,230
Reserve Study Update								
Triennial Inspection	1 Each	\$1,000.00	0	3	\$1,000	\$324	\$0	
					Subtotal for Reserve Study Update :	\$1,000	\$324	\$0
					Grand Total:	\$48,252.45	\$11,154	\$21,978

Sample Homeowners Association

California Disclosure Notes

The following notes are required by Sections 1365 and 1365.2.5 of the California Civil Code to be included in the annual budget distributed to all homeowners.

Assessment and Reserve Funding Disclosure Summary

For Fiscal Year Beginning: 1/1/2006

The Association's Reserve Contribution for 2006 is: **\$11,828**

This is an average per unit per month of: \$8.21

- 1) The Current assesment per unit is: _____ per Month.
Note: If assessments vary by the size or type of unit, the assessment applicable to this unit may be found attached to this document

- 2) Additional 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:

Year Due	Total Amount Per Unit	Purpose

Note: If assessments vary by the size or type of unit, the assessment applicable to this unit may be found attached to this document.

- 3) Based on 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

The answer to this question is dependent upon predictions of future events that are estimates that cannot be forecast with precision. These predictions include assumptions concerning component lives, replacement costs, inflation, and interest over the next 30 years that by their very nature cannot be accurately determined over that time period. In addition, it assumes that future Boards will both adequately maintain the property and make future increases in assessments as predicted in the Reserve Study upon which these disclosures are made.

- 4) If the answer to #3 is "No", what additional assessments or other contributions to Reserves would be necessary to ensure that suffcient Reserve Funds will be available each year during the next 30 years?

Year Due	Total Amount Per Unit	Purpose

- 5) The following major components, which are included in the Reserve Study are **NOT** included in the existing Reserve Funding:

Major Component	Remaining Useful Life	Reason Not Included

California Disclosure Notes

- 6) For our Fiscal Yr starting 1/1/2006 our Reserve Study shows a current fund balance of \$32,466 on the method of calculation in paragraph (4) of subdivision (b) of Section 1365.2.5, the required amount in the Reserve Fund (Fully Funded Balance) is \$22,605.78. This results in a percentage funding of 143.62 %.

An alternate, but generally accepted, method of calculation was also used. The alternate calculation gives credit to the interest earning power of the portfolio, as well as inflation. As depicted in the formula below, the results from this calculation reveal a required amount of \$21,978.23 and a Percent Funded Calculation of 147.72 %. This formula is recognized by both The Association of Professional Reserve Analysts and Community Associations Institute.

$$\text{Desired Balance} = \left(\frac{\text{Current Cost}}{\text{Useful Life}} \times \text{Current Life} \right) + \left(\frac{\frac{\text{Current Cost}}{\text{Useful Life}} \times \text{Current Life}}{(1 + \text{Interest Rate})^{\text{Remaining Life}}} \right) - \left(\frac{\frac{\text{Current Cost}}{\text{Useful Life}} \times \text{Current Life}}{(1 + \text{Inflation Rate})^{\text{Remaining Life}}} \right)$$

The Board of Directors does not anticipate the levy of any special assessments to defray the future repair, replacement or restoration of any major component or to provide adequate reserves therefor.

This Association’s funding plan provides adequate funds to meet expected expenditures and is based on the assumption that the Association will fund the reserves in accordance with the plan we have presented, which includes changes in annual funding as depicted in the statement of cash flows and expenditures established through an independent reserve study and funding updates as appropriate. The amount of reserves necessary was determined by calculating the annualized wearing out of the components, adjusting for the expected interest earnings of the reserve portfolio as well as expected inflationary impact on the future costs of the components. The most recent reserve study with detailed backup has been provided to your Board of Directors and is on file with the Association’s official records. This study must be reviewed and adjusted as necessary annually (California Civil Code Section 1365.5(d)).

The accompanying table titled “Consolidated Component List” showing the estimated replacement costs, estimated current life, and estimated remaining life for the components is an integral part of this required disclosure.

Sample Homeowners Association

California Disclosure Notes

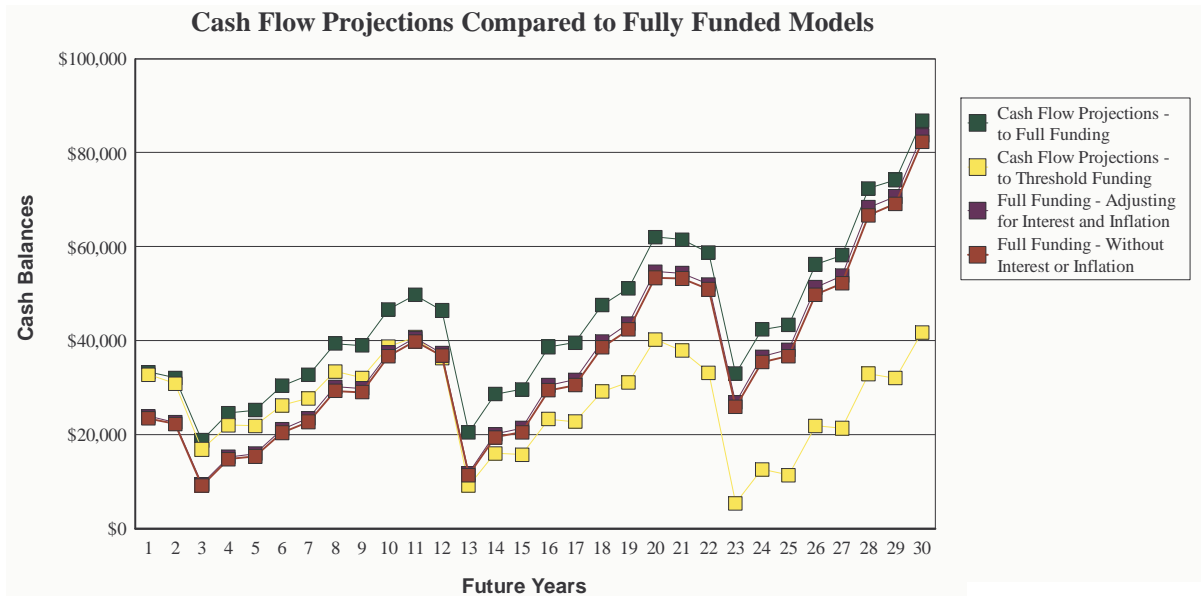
Inflation Assumption: 3.64%

Pre-tax Interest Assumption: 4.75%

Tax Assumption: 1120H

The graph below depicts a forecast of the level of fund balances necessary over the next thirty years in order to remain 100% funded, as well as two commonly recognized funding alternatives. One method results in funding to this full funding level. The other method funds to some threshold set by the association which may be higher or lower than full funding depending on the needs and desires of the association.

The association has chosen to fund to full funding as depicted on the following table.



Sample Homeowners Association

California Disclosure Notes

The percent funded figure disclosed on the previous page is required by the California Civil Code. However, such disclosures are problematic as they do not show the impact on current or future homeowners. It is possible for associations with very low funding percentages to recover to adequate funding levels in some cases with very little impact on homeowners. In other cases, the impact may be significant. Conversely, it is possible to have relatively high "percent funded" figures and still require significant increases in assessments, and in some cases special assessments, in order to recover any shortfall before expected expenditures are due. In order to help measure the impact of any underfunding status in the reserve fund the following table is provided:

Impact of Fund Status on Current and Future Owners					
Measured in average impact per unit per month (PUPM)					
<u>End of Fiscal Year</u>	Notional <u>Ideal Assessment</u>	Assessment Needed to Achieve/Maintain <u>Full Funding</u>	Special <u>Assessments</u>	Impact of any <u>Underfunding</u>	Projected Percent <u>Funded</u>
2006	\$ 8.48	\$ 8.21	\$ 0.00	Fully Funded	139.54%
2007	\$ 8.78	\$ 8.51	\$ 0.00	Fully Funded	141.87%
2008	\$ 9.10	\$ 8.82	\$ 0.00	Fully Funded	198.54%
2009	\$ 9.43	\$ 9.14	\$ 0.00	Fully Funded	161.07%
2010	\$ 9.78	\$ 9.48	\$ 0.00	Fully Funded	158.30%
2011	\$ 10.13	\$ 9.82	\$ 0.00	Fully Funded	143.95%
2012	\$ 10.50	\$ 10.18	\$ 0.00	Fully Funded	139.29%
2013	\$ 10.89	\$ 10.55	\$ 0.00	Fully Funded	130.63%
2014	\$ 11.28	\$ 10.93	\$ 0.00	Fully Funded	130.72%
2015	\$ 11.69	\$ 11.33	\$ 0.00	Fully Funded	124.47%
2016	\$ 12.12	\$ 11.74	\$ 0.00	Fully Funded	122.60%
2017	\$ 12.56	\$ 12.17	\$ 0.00	Fully Funded	124.28%
2018	\$ 13.02	\$ 12.62	\$ 0.00	Fully Funded	173.27%
2019	\$ 13.49	\$ 13.07	\$ 0.00	Fully Funded	142.44%
2020	\$ 13.98	\$ 13.55	\$ 0.00	Fully Funded	138.94%
2021	\$ 14.49	\$ 14.04	\$ 0.00	Fully Funded	126.79%
2022	\$ 15.02	\$ 14.55	\$ 0.00	Fully Funded	125.02%
2023	\$ 15.56	\$ 15.08	\$ 0.00	Fully Funded	119.45%
2024	\$ 16.13	\$ 15.63	\$ 0.00	Fully Funded	117.20%
2025	\$ 16.72	\$ 16.20	\$ 0.00	Fully Funded	113.47%
2026	\$ 17.33	\$ 16.79	\$ 0.00	Fully Funded	113.07%
2027	\$ 17.96	\$ 17.40	\$ 0.00	Fully Funded	113.07%
2028	\$ 18.61	\$ 18.04	\$ 0.00	Fully Funded	122.83%
2029	\$ 19.29	\$ 18.69	\$ 0.00	Fully Funded	115.76%
2030	\$ 19.99	\$ 19.37	\$ 0.00	Fully Funded	113.89%
2031	\$ 20.72	\$ 20.08	\$ 0.00	Fully Funded	109.57%
2032	\$ 21.47	\$ 20.81	\$ 0.00	Fully Funded	108.19%
2033	\$ 22.25	\$ 21.57	\$ 0.00	Fully Funded	105.90%
2034	\$ 23.06	\$ 22.35	\$ 0.00	Fully Funded	104.99%
2035	\$ 23.90	\$ 23.17	\$ 0.00	Fully Funded	103.76%

The above table presumes full funding in thirty years and is intended to provide a measure of the impact of any under or over funding on homeowners.

The association intends to follow the above funding plan.

Sample Homeowners Association

**California Disclosure Notes
Consolidated Component List**

NOTE: This listing is required to be provided to homeowners by the California Civil Code. In order to reduce print costs, it is a consolidated list provided for informational purposes only. Any mathematical projections or calculations made in the reserve funding analysis were made from an expanded list. Readers are cautioned not to attempt to make mathematical projections of their own from this list, but rather to refer to the "Detailed component List" provided in the complete reserve study on file with the association.

Reserve Component	Quantity	Average	Current	Adjusted	Remaining	Current Cost	Future Cost
		Unit Cost	Useful Lives	Useful Lives	Useful Lives		
Brick Paver Reset Fund	32,785 S.F.	\$0.20	10 to 10	10 to 10	2 to 2	\$6,557	\$7,043
Irrigation	2 Each	\$150.00	15 to 15	15 to 15	8 to 8	\$300	\$399
Landscape	2 Lot	\$8,300.00	2 to 2	2 to 2	1 to 2	\$16,600	\$17,453
Lights	4 Each	\$125.00	20 to 20	20 to 20	13 to 13	\$500	\$796
Mailboxes	181 Each	\$50.06	20 to 40	20 to 40	13 to 33	\$9,060	\$23,496
Masonry Wall Repair Fund	1,401 L.F.	\$0.20	1 to 1	1 to 1	1 to 1	\$280	\$290
Paint, Stucco	12,609 S.F.	\$0.75	10 to 10	10 to 10	3 to 3	\$9,457	\$10,527
Paint, Wrought Iron	61 Each	\$20.00	4 to 4	4 to 4	1 to 1	\$1,220	\$1,264
Pavement Cleaning	32,785 S.F.	\$0.10	10 to 10	10 to 10	3 to 3	\$3,279	\$3,650
Reserve Study Update	1 Each	\$1,000.00	3 to 3	3 to 3	3 to 3	\$1,000	\$1,113
Grand Total:						\$48,252	\$66,033