

Reserve Analysis Report

Union Hills Condominium Association

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For Fiscal Year End:
December 31, 2007



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Preface

What is A Reserve Study?

A reserve study is a detailed report that assists common interest developments (CID) in planning for long-term common area repair and replacement expenses. A CID exists when there is individual ownership of a house or condominium along with the shared ownership or right of use to common areas. These common areas can include streets, roofs, recreational facilities and many other items. A reserve study includes two parts: 1) **The Physical Analysis** contains information about the condition and repair/replacement cost of the components that the CID maintains. The physical analysis should include a component inventory and quantity, estimated useful and remaining life, and estimated replacement cost. 2) **The Financial Analysis** evaluates the CID's reserve fund balance and income. The financial analysis calculates a CID's percent funded by comparing the actual reserve balance to a fully funded balance. The reserve study then estimates the total annual contribution necessary to defray the future costs.

Why Should a Reserve Study be performed?

Certain states, such as California, require that reserve studies be completed and that the board of directors inform owners of the reserve status annually. In addition, the board of directors of a CID has a legal and fiduciary duty to maintain the community in a good state of repair. Property Values are directly affected by the level of maintenance and upkeep of the common area components. Reserve studies create a maintenance plan, which keeps a development in good condition, therefore increasing property appreciation and value. The amount of funds in the reserve account also greatly affects property values. Reserve studies inform CID's how much they should have in their reserve account, which eliminates costly special assessments. Over time each member of a CID should contribute their fair share to the reserve account so when expenses arise the required funds are available. Reserve Studies can also help avoid litigation against CID board members.

Sections of this Reserve Study

Executive Summary - Provides the general information about the CID and summarizes the findings of the study. Percent Funded and Recommended Reserve Contribution are included in the summary.

Component Summary – List all components and their details in tabular form.

30 Year Funding Plans – Lists theoretical fully funded balance for the next 30 years. Also lists theoretical annual contribution, projected year-end balance, and percent funded for the current, recommended, and threshold funding plans. (Inflation and annual due increase are taken into account)

Annual Expenses – Lists projected annual expenses for each component over the next 30 years in tabular form. (Inflation is taken into account)

30 Year Reserve Projection Graph – Displays the reserve account balance for the current, fully funded, threshold, and recommended funding plans over the next 30 years. (Inflation and annual due increase are taken into account)

Projected Annual Expenses Graph – Displays projected annual expenses over the next 30 years in a bar graph. (Inflation is taken into account)

Category Cost % Chart – Provides the percentage of total annual depreciation for each reserve category in a pie graph.

Component Details – Provides detailed information on each component. Also includes pictures of selected components.

Where do Component Repair/Replacement Cost Estimates Come From?

The most accurate cost source is actual bids from contractors or to look at contracts from when the repair/replacement was last performed. In most cases bids or contracts are not available so unit costs for similar work done in the same local area are used. In addition, it is helpful to talk to local vendors who have knowledge of the work and can help with a cost estimate. A third source is to use construction cost estimators such as RS Means. Many times the entire quantity of a component will not need to be replaced or repaired all at once. An example of this is not all light fixtures on a property will need to be replaced at the same time. In this instance an allowance can be developed for the component.

The cost source number for each component is provided in the component summary and details. An explanation of each follows:

1. **Local Historical Cost** – Cost based on bids for similar work done in same area.
2. **McCaffery Estimate** – Estimate or Allowance made by McCaffery Staff Member.
3. **Board/Manager Direction** – Cost estimate provided by board member or property manager.
4. **Bid/Contract** – Bid came from actual bid or contract.
5. **Cost Manual** – Cost came from estimating manual.
6. **Previous Study** – Cost came from previous reserve study.

What Procedures were used for calculation and establishment of reserves?

In this study the fully funded reserve balance for a component at a given time was computed using the component method. Using the component method the fully funded reserve balance equals 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.

For example if the cost of a boiler is \$10,000, the useful life is 10 years and the remaining life is 3 years. The recommended reserve balance would be:

$$\$10,000 \times ((10-3)/10) = \$7,000.$$

Glossary of Terms:

Contingency – An allowance for miscellaneous components or unpredictable expenses. (5% of total current cost unless directed otherwise)

Current Budgeted Reserve Assessment – Amount currently being deposited into reserve account. Provided by Property Manager or Board Member.

Depreciation This Year – Amount that should be saved for component during current year. Provided for each component and summed for all components. If the association is 100% funded this is the amount they should contribute to the reserve fund annually.
=(Total Current Cost / Normal Useful Life)

Fully Funded Balance – The total depreciation over the life of the component. In other words, the amount that should have been saved during the life of the component. Provided for each component and summed for all components =((Normal Life – Remaining Life) * Depreciation This Year)

Normal Useful Life – Typical useable life for a component.

Percent Funded – The percentage of the fully funded balance that the CID has in reserve fund. (Projected Balance/ Fully Funded Balance)

Projected Balance – Projected balance at fiscal year end with current funding plan. Calculated using current reserve balance, remaining contributions to reserves before year-end, and planned expenses before year-end.

Recommended Reserve Contribution – Recommended amount that the CID should allocate into reserves.

Remaining Life – Expected remaining useable life of component. (0 year remaining life means the component will be serviced in the upcoming fiscal year)

Replacement Year – Year that component is projected to be replaced or repaired.

Total Cost – Total cost to replace entire quantity of component in today's dollars.
=(Quantity x Unit Cost)

Total Future Cost - Current cost adjusted to future cost taking into account inflation and replacement year. =(Current Cost * (1+ inflation rate)^(Replacement Year-Present Year))

Threshold Reserve Contribution – Reserve contribution that should be allocated into reserves to keep reserve balance above a minimum amount during the next 30 years.
(Minimum amount is 5% of total replacement cost unless otherwise noted)

Under Funded – Amount association is short of fully funded balance; also known as a deficit. =(Fully Funded Balance – Projected Balance)

Unit Cost – Cost per Unit.

Unit of Measure – Unit used to measure component. (Explanations shown below)

SF – Square Feet

SY – Square Yard

LF – Linear Feet

Each – Per Single Unit

Lump Sum - Total cost for component

Allowance – Allowance for component repair or replacement

Contract – Cost obtained from actual contract or bid

Useful Life – Time in years component is expected to last.

If you have any questions feel free to contact us at 858-764-1895.

Executive Summary

Union Hills Condominium Association

This is a Homeowners Association with 67 Condominium Units.

The common area components include: asphalt, pool area, and building exterior.

A Full Study with an on-site inspection was performed on January 31, 2007

Number of Units	67
Year Built	1981 & 1983
Fiscal Year End	December 31, 2007

After Tax Interest Rate	2%
Annual Inflation Rate	3%
Annual Dues Increase	3%

Reserve Fund Balance December 31, 2007

Fully Funded Reserve Balance	\$ 466,421
Projected Balance	\$ 100,000
Under Funded	\$ 366,421
Percent Funded	21.4%

	Annually	Monthly	Per Unit Monthly
Current Budgeted Reserve Assessment	\$ 18,000	\$ 1,500	\$ 22.39
Depreciation of Components in 2007	\$ 39,166	\$ 3,264	\$ 48.71
Threshold Reserve Contribution for 2008	\$ 85,680	\$ 7,140	\$ 106.57
Recommended Reserve Contribution for 2008	\$ 97,200	\$ 8,100	\$ 120.90

The reserves are 21% funded and there is a deficit of \$366,421

In order to reduce the deficit we recommend that association should contribute \$97,200 to their reserve fund in 2007.

Component Summary
Union Hills Condominium Association

Category	Approx. Quantity	Unit of Measure	Useful Life	Remaining Life	Unit Cost	Total Cost	Depreciation This Year	Fully Funded Balance	Cost Source
Roofing									
Flat Phase 1	18500	SF	15	3	\$ 4.00	\$ 74,000	\$ 4,933	\$ 59,200	1
Flat Phase 2	26500	SF	15	3	\$ 4.00	\$ 106,000	\$ 7,067	\$ 84,800	1
Clubhouse	650	SF	15	2	\$ 4.00	\$ 2,600	\$ 173	\$ 2,253	1
Tile Underlayment & Repairs	1	Allowance	35	10	\$ 12,000	\$ 12,000	\$ 343	\$ 8,571	1
Carport	16000	SF	35	10	\$ 2.25	\$ 36,000	\$ 1,029	\$ 25,714	1
						\$ 230,600	\$ 13,545	\$ 180,539	
Painting									
Stucco Phase 1	28	Each	12	3	\$ 800	\$ 22,400	\$ 1,867	\$ 16,800	1
Stucco Phase 2	39	Each	12	5	\$ 800	\$ 31,200	\$ 2,600	\$ 18,200	1
Wood Trim/Rails	67	Each	5	2	\$ 275	\$ 18,425	\$ 3,685	\$ 11,055	1
Metal Fencing	500	LF	5	0	\$ 5.00	\$ 2,500	\$ 500	\$ 2,500	1
						\$ 74,525	\$ 8,652	\$ 48,555	
Fencing/Rails									
Pool Fence	120	LF	25	0	\$ 34.00	\$ 4,080	\$ 163	\$ 4,080	1
Metal Perimeter Fencing	380	LF	25	4	\$ 34.00	\$ 12,920	\$ 517	\$ 10,853	1
Wood Perimeter Fencing (50%)	550	LF	20	1	\$ 54.55	\$ 15,001	\$ 750	\$ 14,251	3
						\$ 32,001	\$ 1,430	\$ 29,184	
Asphalt									
Slurry Seal & Repair	64000	SF	4	0	\$ 0.14	\$ 8,960	\$ 2,240	\$ 8,960	1
Overlay & Replace Done	64000	SF	25	0	\$ 1.20	\$ 76,800	\$ 3,072	\$ 76,800	1
Concrete Repairs	1	Allowance	5	2	\$ 5,000	\$ 5,000	\$ 1,000	\$ 3,000	1,2
						\$ 90,760	\$ 6,312	\$ 88,760	
Pool & Rec Building									
Pool Replaster/Tile	1	Allowance	12	0	\$ 8,500	\$ 8,500	\$ 708	\$ 8,500	1
Spa Replaster/Tile	1	Allowance	8	0	\$ 4,000	\$ 4,000	\$ 500	\$ 4,000	1
Pool Equipment	1	Allowance	10	1	\$ 5,000	\$ 5,000	\$ 500	\$ 4,500	1
Spa Equipment	1	Allowance	10	1	\$ 5,000	\$ 5,000	\$ 500	\$ 4,500	1
Restroom Refurbish	1	Allowance	25	1	\$ 5,000	\$ 5,000	\$ 200	\$ 4,800	1
Wood Trellis	450	SF	30	8	\$ 12.00	\$ 5,400	\$ 180	\$ 3,960	1
Deck Repairs	1	Allowance	10	0	\$ 10,000	\$ 10,000	\$ 1,000	\$ 10,000	1
						\$ 42,900	\$ 3,588	\$ 40,260	
Landscaping									
Irrigation Upgrade	1	Allowance	12	2	\$ 4,000	\$ 4,000	\$ 333	\$ 3,333	1,2
Tree Remove/Replace	1	Allowance	15	3	\$ 6,000	\$ 6,000	\$ 400	\$ 4,800	6
						\$ 10,000	\$ 733	\$ 8,133	

Category	Approx. Quantity	Unit of Measure	Useful Life	Remaining Life	Unit Cost	Total Cost	Depreciation This Year	Fully Funded Balance	Cost Source
Tennis Court									
Replace	1	Allowance	25	1	\$ 20,000	\$ 20,000	\$ 800	\$ 19,200	1,2
Chain Link Fencing	380	LF	25	1	\$ 22	\$ 8,360	\$ 334	\$ 8,026	6
Lights	6	Each	30	5	\$ 1,100	\$ 6,600	\$ 220	\$ 5,500	6
						\$ 34,960	\$ 1,354	\$ 32,726	
Lighting									
Repairs & Replacements	1	Allowance	20	5	\$ 8,000	\$ 8,000	\$ 400	\$ 6,000	3
						\$ 8,000	\$ 400	\$ 6,000	
Miscellaneous									
Stem Wall Repairs	1	Allowance	10	0	\$ 5,000	\$ 5,000	\$ 500	\$ 5,000	3
Wood Repairs	1	Allowance	10	5	\$ 6,000	\$ 6,000	\$ 600	\$ 3,000	1,2
Trash Gates	4	Each	15	4	\$ 700	\$ 2,800	\$ 187	\$ 2,053	1
						\$ 13,800	\$ 1,287	\$ 10,053	
Contingency									
5%							\$ 1,865	\$ 22,211	
TOTALS						\$ 537,546	\$ 39,166	\$ 466,421	

Notes: Any other items not listed are included in operating budget.

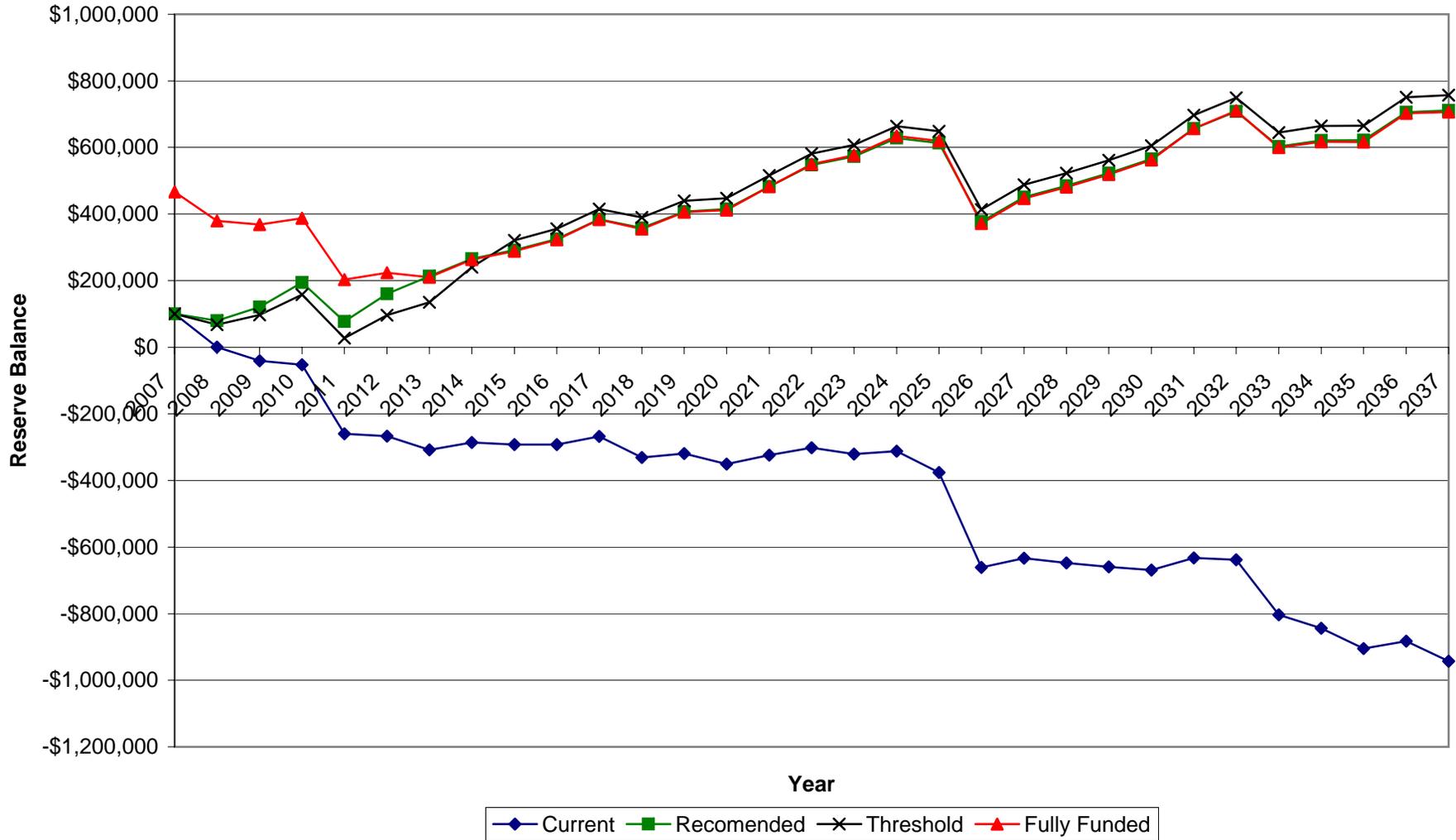
Theoretical 30 Year Funding Plans

Union Hills Condominium Association

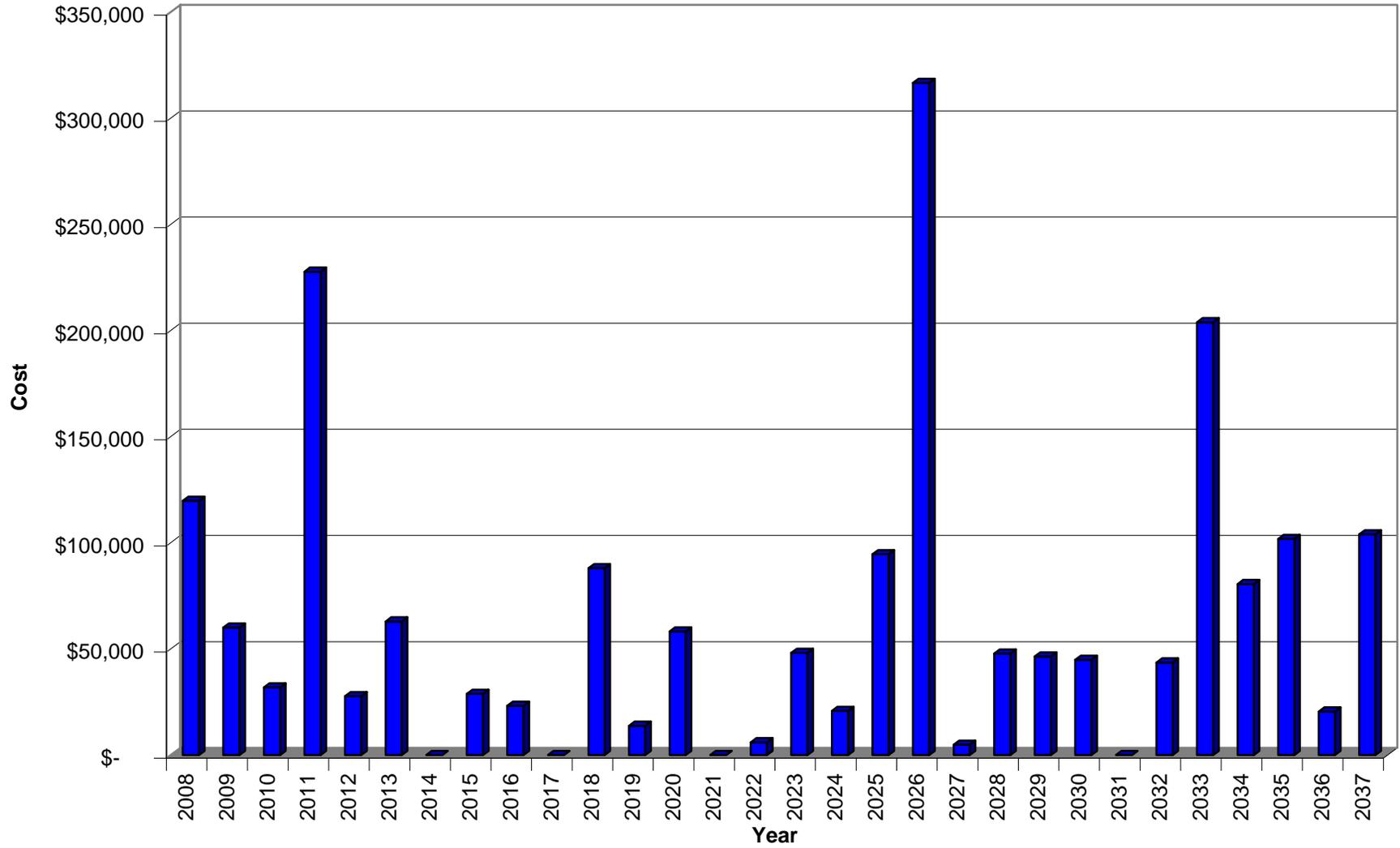
Year End	Annual Expenses	Fully Funded Balance	Current Funding Plan			Recommended Funding Plan			Threshold Funding Plan		
			Contribution	Balance	% Funded	Contribution	Balance	% Funded	Contribution	Balance	% Funded
2007	\$ -	\$ 466,421	\$ 18,000	\$ 100,000	21%	\$ -	\$ 100,000	21%	\$ -	\$ 100,000	21%
2008	\$ 119,840	\$ 379,755	\$ 18,540	\$ 700	0%	\$ 97,200	\$ 79,360	21%	\$ 85,680	\$ 67,840	18%
2009	\$ 60,112	\$ 368,371	\$ 19,096	\$ (40,302)	-11%	\$ 100,116	\$ 120,951	33%	\$ 88,250	\$ 97,335	26%
2010	\$ 31,854	\$ 387,528	\$ 19,669	\$ (52,486)	-14%	\$ 103,119	\$ 194,636	50%	\$ 90,898	\$ 158,326	41%
2011	\$ 227,724	\$ 202,841	\$ 20,259	\$ (259,951)	-128%	\$ 106,213	\$ 77,018	38%	\$ 93,625	\$ 27,393	14%
2012	\$ 27,778	\$ 223,842	\$ 20,867	\$ (266,862)	-119%	\$ 109,399	\$ 160,180	72%	\$ 96,434	\$ 96,597	43%
2013	\$ 62,949	\$ 209,866	\$ 21,493	\$ (308,318)	-147%	\$ 112,681	\$ 213,116	102%	\$ 99,327	\$ 134,907	64%
2014	\$ -	\$ 262,928	\$ 22,138	\$ (286,180)	-109%	\$ 48,170	\$ 265,548	101%	\$ 102,306	\$ 239,912	91%
2015	\$ 28,810	\$ 288,735	\$ 22,802	\$ (292,188)	-101%	\$ 49,615	\$ 291,664	101%	\$ 105,376	\$ 321,276	111%
2016	\$ 23,258	\$ 322,591	\$ 23,486	\$ (291,960)	-91%	\$ 51,103	\$ 325,343	101%	\$ 51,103	\$ 355,546	110%
2017	\$ -	\$ 383,372	\$ 24,190	\$ (267,769)	-70%	\$ 52,636	\$ 384,486	100%	\$ 52,636	\$ 415,294	108%
2018	\$ 88,027	\$ 355,082	\$ 24,916	\$ (330,880)	-93%	\$ 54,215	\$ 358,364	101%	\$ 54,215	\$ 389,788	110%
2019	\$ 13,842	\$ 405,415	\$ 25,664	\$ (319,058)	-79%	\$ 55,842	\$ 407,531	101%	\$ 55,842	\$ 439,583	108%
2020	\$ 58,292	\$ 412,212	\$ 26,434	\$ (350,917)	-85%	\$ 57,517	\$ 414,906	101%	\$ 57,517	\$ 447,600	109%
2021	\$ -	\$ 482,096	\$ 27,227	\$ (323,690)	-67%	\$ 59,243	\$ 482,447	100%	\$ 59,243	\$ 515,794	107%
2022	\$ 6,050	\$ 549,448	\$ 28,043	\$ (301,697)	-55%	\$ 61,020	\$ 547,065	100%	\$ 61,020	\$ 581,080	106%
2023	\$ 48,141	\$ 576,403	\$ 28,885	\$ (320,954)	-56%	\$ 62,850	\$ 572,716	99%	\$ 62,850	\$ 607,411	105%
2024	\$ 20,797	\$ 634,709	\$ 29,751	\$ (312,000)	-49%	\$ 64,736	\$ 628,109	99%	\$ 64,736	\$ 663,498	105%
2025	\$ 94,584	\$ 619,173	\$ 30,644	\$ (375,940)	-61%	\$ 66,678	\$ 612,765	99%	\$ 66,678	\$ 648,861	105%
2026	\$ 316,653	\$ 371,941	\$ 31,563	\$ (661,029)	-178%	\$ 68,678	\$ 377,046	101%	\$ 68,678	\$ 413,864	111%
2027	\$ 4,910	\$ 446,622	\$ 32,510	\$ (633,429)	-142%	\$ 70,739	\$ 450,416	101%	\$ 70,739	\$ 487,970	109%
2028	\$ 47,790	\$ 480,580	\$ 33,485	\$ (647,734)	-135%	\$ 72,861	\$ 484,495	101%	\$ 72,861	\$ 522,801	109%
2029	\$ 46,510	\$ 519,023	\$ 34,490	\$ (659,753)	-127%	\$ 75,047	\$ 522,722	101%	\$ 75,047	\$ 561,794	108%
2030	\$ 44,885	\$ 562,511	\$ 35,525	\$ (669,114)	-119%	\$ 77,298	\$ 565,590	101%	\$ 77,298	\$ 605,443	108%
2031	\$ -	\$ 656,685	\$ 36,590	\$ (632,523)	-96%	\$ 79,617	\$ 656,519	100%	\$ 79,617	\$ 697,169	106%
2032	\$ 43,624	\$ 710,197	\$ 37,688	\$ (638,459)	-90%	\$ 82,006	\$ 708,031	100%	\$ 82,006	\$ 749,494	106%
2033	\$ 203,892	\$ 599,422	\$ 38,819	\$ (803,533)	-134%	\$ 84,466	\$ 602,765	101%	\$ 84,466	\$ 645,058	108%
2034	\$ 80,570	\$ 617,272	\$ 39,983	\$ (844,120)	-137%	\$ 87,000	\$ 621,250	101%	\$ 87,000	\$ 664,388	108%
2035	\$ 101,791	\$ 615,909	\$ 41,183	\$ (904,727)	-147%	\$ 89,610	\$ 621,494	101%	\$ 89,610	\$ 665,495	108%
2036	\$ 20,500	\$ 702,472	\$ 42,418	\$ (882,809)	-126%	\$ 92,298	\$ 705,722	100%	\$ 92,298	\$ 750,603	107%
2037	\$ 103,972	\$ 706,673	\$ 43,691	\$ (943,090)	-133%	\$ 95,067	\$ 710,931	101%	\$ 95,067	\$ 756,710	107%

Note: All future projections are theoretical. The estimated lives and costs of components will likely change over time depending on factors such as inflation rates and levels of maintenance. Reserve analysis should be performed annually to account for these factors.

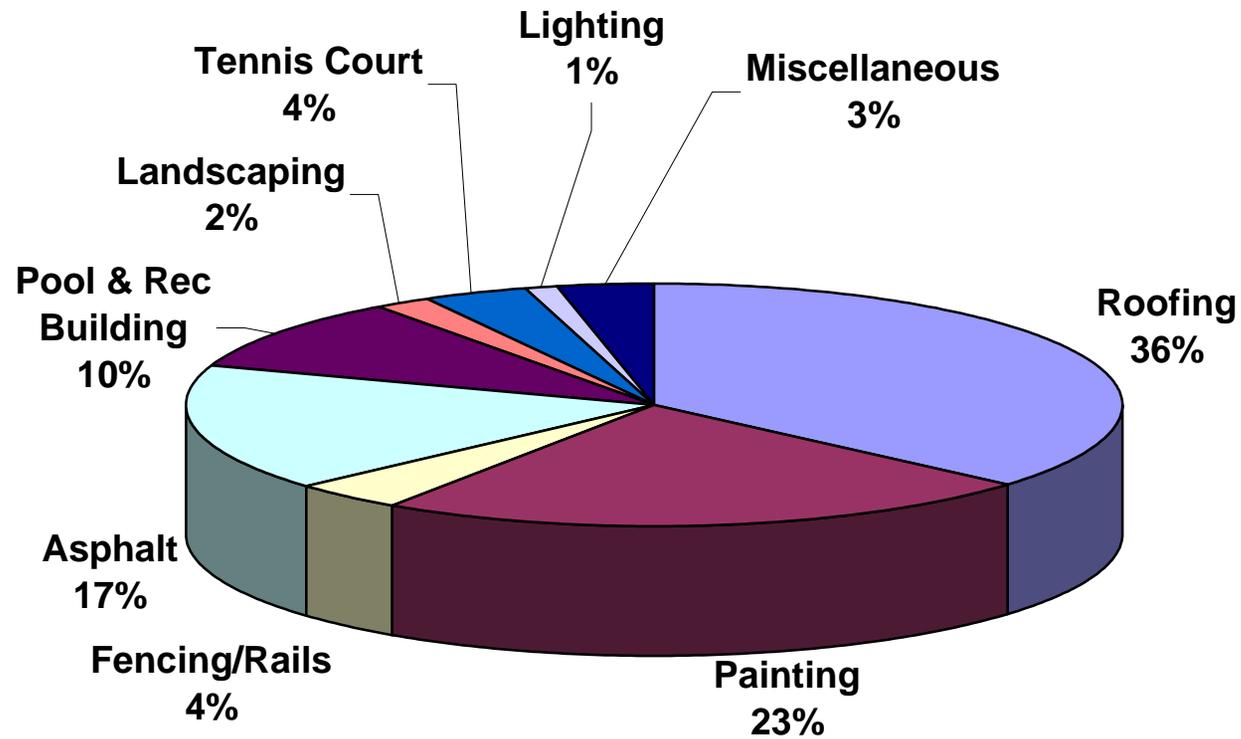
30 Year Reserve Balance Projection



Projected Annual Expenditures



Category Cost %



Disclaimer

This report attempts to determine the estimated remaining useful life of the components that can be visually observed. This report is expressly for the use of the client and only for the purpose of establishing reserve funding requirements. The study is not a guarantee or warranty, or a recommendation to purchase. Estimated remaining useful lives are calculated with reasonable consideration for weather conditions. Natural disasters, including seismic activity will not be addressed in this report. Reserve Funding for earthquake damages and other disasters exceeds the scope of the study. We recommend the development consider additional insurance to cover unforeseen disasters. We assume the components of the association will receive proper maintenance. The report is expressly for the use of the client and only for the purpose of establishing reserve funding requirements.

In providing the opinions of probable construction costs, the client understands that McCaffery Reserve Consulting (MRC) has no control over costs or the price of labor, equipment or materials, or over the contractor's method of pricing, and that the opinions of probable construction costs provided herein are to be made on the basis of MRC's qualifications and experience. MRC makes no warranty, expressed or implied, as to the accuracy of such opinions as compared to bid or actual costs.

Because the reserve study is a projection, the estimated lives and costs of components will likely change over time depending on a variety of factors such as future inflation rates and levels of maintenance applied by future boards, unknown defects in materials that may lead to premature failures, etc. As a result, some components may experience longer lives while others will experience premature failures. Some components may cost less at the time of replacement due to changes in manufacturing methods while others may cost more due to material shortages or high demand. All future projections are therefore theoretical and reserve studies should be updated annually.

MRC has made a reasonable effort to ensure that the report is accurate. This study does not preclude errors resulting from unforeseen conditions or circumstances. The scope of this report is expressly limited to the components described herein. MRC has obtained certain information, documentation and materials from the association agent and the reserve study is based upon the accuracy of such information. Material inaccuracies could adversely effect the reserve study. MRC is not responsible for such inaccuracies. This study is limited to a visual observation. There has been neither destructive testing nor inspection of the interior of private units; floors, wall or ceiling cavities, or structural elements. It is assumed that the components have been constructed per original construction documents and comply with applicable codes. This study is not designed to uncover latent or patent defects. Estimates represent replacement of a component with similar materials unless otherwise noted. Local building codes have not been researched to determine whether or not current ordinances will permit the replacement of any component with components of like material. The estimates do not take into account the abbreviated useful life of a component as a result of its original construction, installation, or design. MRC is not responsible for any claims, demands, or damages arising out of the discovery of asbestos, radon or any environmental claims, demands or damages. We do not assume any liability for damages which may result from this study. We are not responsible for conditions this report fails to disclose. The information contained in this study is deemed reliable as of the date of this study, but is not guaranteed.

The Association, by accepting this study, agrees to release MRC from any claims, demands or damages. The Association, in consideration of MRC performing the reserve study, hereby agrees to indemnify, defend and hold harmless MRC from and against any and all liability, damages, losses, claims, demands, or lawsuits arising out of or relating to this reserve study.

The information contained within the report is assembled in conjunction with the client and is intended to assist the client with its reserve planning. MRC does not guarantee, either explicitly or implied, that all repair and replacement items have been identified, the accuracy of the probable costs or the product lives associated with these items.