

The Reserve Study Report

This reserve study is a comprehensive assessment of the Association's common area assets and an analysis of its reserve fund balances to determine the fund health for future major repair or replacement of common area assets. One of the primary responsibilities of the Kissing Camels Property Owners Association, through its Board of Directors, is to maintain, preserve, and replace the common area assets for the future use of the Association members.

This is a Level 1 reserve study (new study with site visit) which includes a physical and financial analysis. The physical analysis includes a comprehensive on-site inspection which results in a complete inventory of common area assets. It also includes a determination of the current condition of each asset, the remaining useful life of the asset, and the current and future cost to fund major repairs or replacement of each asset. The financial analysis of the reserve study includes analyzing the current reserve fund, formulating a detailed plan for adequately funding the reserve account, and a 30 year projection for cash flow management.

This reserve study is a budget model for your association, working alongside your Operating & Maintenance budget. We have attempted to identify significant expenses likely to occur over time, and computed a reserve contribution rate plan to accumulate sufficient reserves to meet those expenses, ideally without having to levy a special assessment. There are three expected results from a Reserve Study: 1) A list of what you're reserving for (see Page 3); 2) An evaluation of your current reserve fund size and strength (see Pages 1); and 2) A plan to offset the projected expenses (see Page 11).

There is currently no state or other mandated level of reserve funding. The choice for your association is then largely: "How much risk are we willing to place the community at for having to pay common area expenses over and above the planned monthly assessments?" This answer typically varies, but in all cases, special assessment is not the most efficient or fair approach - gathering stable, incremental reserve contributions is. Special assessments are particularly difficult for those with fixed incomes.

Like any budget, the reserve study is a dynamic working document deserving of your time and attention. The projects that are included, economic and other factors affecting the future will be in a constant state of change. Your job is to have a thorough understanding of what you are collectively responsible for. To maintain, repair and replace, and to work your plan to proactively make decisions (i.e. materials, specifications, contractors, etc...) that deliver the best value for your community as a whole. Boards are charged with a duty to enhance, maintain and protect the assets of the community; mainly unit values!

Although this report covers a 30-year period as required by acceptable practices, it can be used as a planning tool for any period of time within those 30 years that you choose. An effective strategy to begin with, is to obtain a firm grasp of your projected expenses within the next 5 years. The near term years, are those your current owners are likely to care most about. Page 4 of this report is one place you can see this information. Detail for these years can be found on pages 14 - 21 note the projected expenses at the bottom of the annual calculations. The income shown in the top lines are what you will have *if* you follow the recommendation of the 100% Full funding reserve contribution rate shown within the top box of the CEO report. Current reserve strength is indicated by your association's Percent Funded figure. Generally a position below 30% Funded is regarded as weak, 30% - 70% regarded as Fair and over 70% regarded as Strong.

The goals of the Reserve Study are as follows:

- Quantify as well as provide a condition assessment of each major element the association has responsibility for maintaining.
- Determine the typical useful life and remaining useful life of the elements.
- Estimate replacement costs for each element and prepare a schedule of element replacements based on historical performance data and present condition.

- Evaluate the annual reserve fund contributions required to ensure that reserve funds are available when needed to repair or replace the elements without the need to levy a special assessment.

Several general assumptions have been made for the completion of this study, which are as follows:

1. The elements will be replaced with like kind unless otherwise noted or directed by a representative of the property to use alternate materials.
2. All new installations will comply with current city, state and local building code requirements.
3. The building structures have a remaining useful life greater than 30 years.
4. A maintenance program will be implemented to ensure that all building components, systems, and equipment are maintained and operated at or near optimum capacities.
5. Since cash flow takes place at frequent and varying time intervals within an interest period, a simplified method of assuming that all cash flow occurs at the midpoint of the interest period is used in the reserve analysis.
6. The financial analysis in this study employs the cash flow method for developing the recommended reserve funding plan. This method generates a reserve funding plan to offset the anticipated annual expenditures which vary with time. In addition, the funding plan was generated using the “fully funded” funding method. By definition, the fully funded method strived to achieve a 100% funded level course of the study, ensuring all owners are paying their fair share. Although not our primary recommendation, a threshold plan to achieve a 70% funded level is also included, when possible, for the Board’s reference.
7. The study is limited to the elements of the property that likely require major repair or replacement during the study period and that have a significant impact on the reserve contributions. Elements that require minor repairs or replacements and are relatively insignificant in cost when compared to the property in its totality are assumed to be funded from the operating and maintenance budget.
8. Elements such as electrical, water supply, and waste water systems for the building are considered to have an extensive lifetime that make it very difficult to predict or establish major repair or replacement expenses. These elements can function indefinitely with ongoing maintenance and repairs which are considered minor when compared to wholesale replacement expenses; therefore, we assume that future minor ongoing maintenance and repair expenses incurred will be funded from the operating and maintenance budget. This assumption is based on the premise that a reserve study is to include elements that have a definable remaining useful life; therefore, incorporating replacement expenses for elements that do not have a predictable useful life into the study can significantly impact the accuracy and validity of the results.

Funding Assumptions and Analysis

Beginning Assumptions

# of Units	692
Fiscal Year End	30-June
Budgeted Monthly Dues	\$304,579
Budgeted Monthly Reserve Allocation	\$25,246
Projected Starting Reserve Balance	\$2,652,204
Ideal Starting Reserve Balance	\$1,166,482

Economic Assumptions

Current Inflation Rate	3.00%
Reported Fund Interest Rate	1.00%

Current Reserve Status

Current Balance as a % of Ideal Balance	227.4%
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Recommendations

Fully (100%) Funded

Recommended Monthly Reserve Allocation	\$19,800
Per Unit	\$28.61
Future Annual Increases	0.00%
For Number of Years:	3
Increases Thereafter:	2.50%

Threshold (70%) Funded*

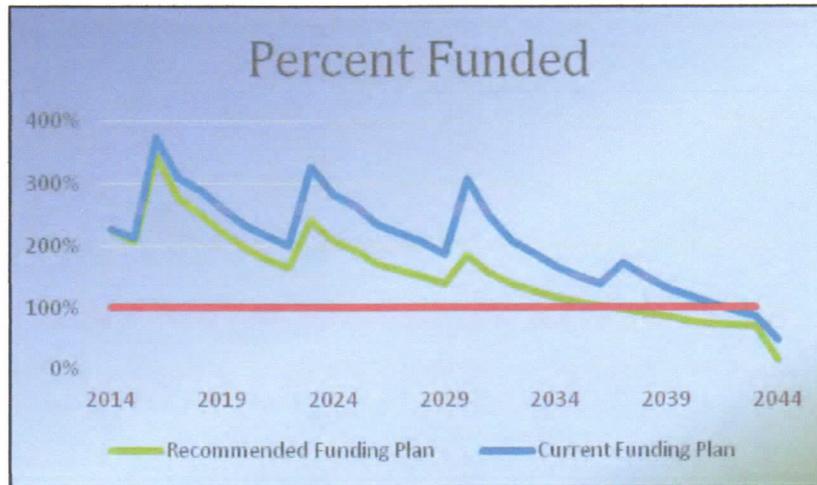
Minimum Monthly Reserve Allocation	\$18,130
Per Unit	\$26.20
Future Annual Increases	0.00%
For Number of Years:	3
Increases Thereafter:	2.50%

Changes From Prior Year

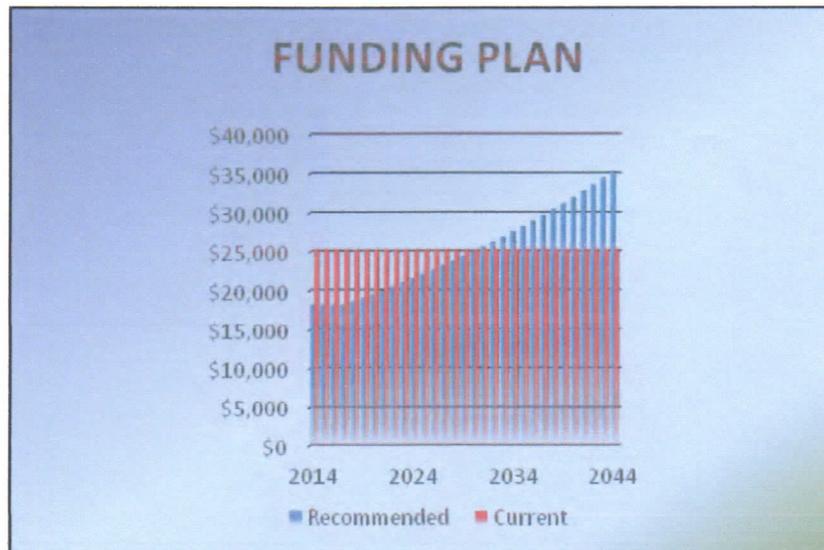
Recommended decrease to Reserve Allocation	-\$5,446
As Percentage	-21.57%
Maximum decrease to Reserve Allocation	-\$7,116
As Percentage	-28.19%

***The Minimum Monthly Reserve Allocation will achieve a 70% Funded balance, which is considered a "Strong" position. CAR recommends maintaining the 100% funded position whenever possible.**

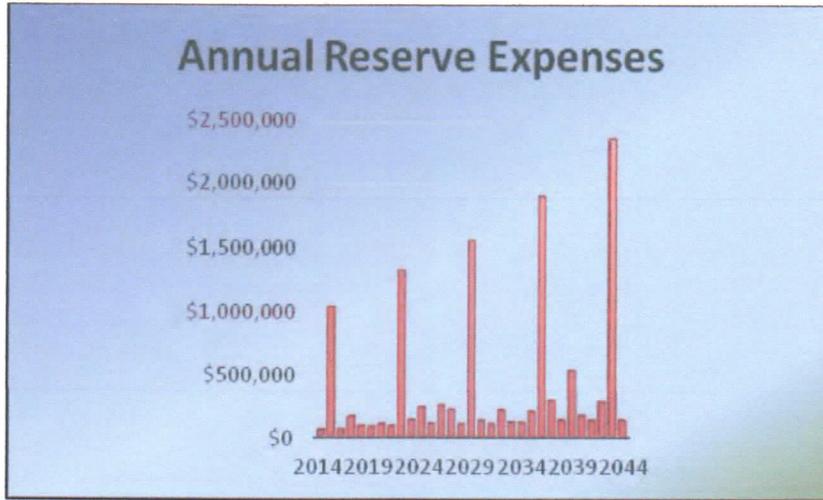
Reserve Fund Financial Activities



The Percent Funded chart represents the plan detailed in the Annual Fund Balance Projections. Over the course of the next 30 years, the plan will bring the association to the ideal level of 100% Funded, meaning funding is keeping pace with the deterioration of the assets. The chart compares our recommended plan to the current plan in place to show how the recommendation will benefit the Association. Detailed revenue data and fund balances can be found in the section titled "Annual Fund Balance Projections".



The Funding Plan Comparison graph visually compares the current in-place finding plan with the recommended plan. The green bars indicate the annual funding of the recommended plan. The striped bars represent the current annual funding levels. The difference between the two bars indicates the needed increase to reach the ideal level of 100% Funded.



Annual project expenses are detailed in the Annual Fund Balance Projections by year. The association may use this detail to ensure it is staying on track with the plan. Note the periodic spikes made up primarily of asphalt replacement expenses. Some significant expenses are several years away. The Association may wish to consider placing those accrued funds in a high-yield, insured investment. This will assist in reducing the contribution in future years. Detailed expense data and anticipated projects can be found in the section titled "Annual Fund Balance Projections".