



SCT RESERVE CONSULTANTS, INC.

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December 3, 2009

Job 2009-119-1 L3

Stonemark at Los Morros Homeowners Association
c/o Pacifica Real Estate Services, Inc.
5505 Cancha de Golf
Rancho Santa Fe, CA 92091
Attn: Mr. David Sanders

Subject: Year 2010 Level III Reserve Study

Dear Mr. Sanders,

SCT Reserve Consultants, Inc. is pleased to submit this Level III Reserve Study.

There are two summary sections that are required to be included in the Association's year-end mailing to the membership. They are the "**Executive Summary**" and the "**Assessment and Reserve Funding Disclosure Summary**". They are to be mailed 30 to 90 days prior to the Association's year-end. These three pages will satisfy the current California Civil Code requirements for homeowner disclosure.

The 'Year 2010 Reserve Budget' table of this report is AICPA approved; this may be included in the mailing but is generally not required. Check with legal counsel for greater clarification.

We appreciate the opportunity to provide our professional services. Should you have any need for clarification please contact me at (951) 296-3520.

Sincerely,

Michael C. Graves, R.S. #00039

YEAR 2010
LEVEL III
RESERVE STUDY
(FINANCIAL UPDATE REPORT)
FOR
STONEMARK AT LOS MORROS
HOMEOWNERS ASSOCIATION
VERSION 2

C/O PACIFICA REAL ESTATE SERVICES, INC.
5505 CANCHA DE GOLF
RANCHO SANTA FE, CA 92091
ATTN: MR. DAVID SANDERS

SCT RESERVE CONSULTANTS, INC.
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Table of Contents

<i>Section</i>	<i>Page</i>
Executive Summary	4
Assessment and Reserve Funding Disclosure Summary	5
Summary	7
Year 2010 Reserve Budget	9
Component Identification Report	10
Component Replacement Cost Chart.....	14
Cash Flow and Percent Funded Projections	15
Cash Flow and Percent Funded Chart.....	16
10-Year Expenditure and Cash Flow Projection	17
Personal Credentials.....	21
Disclosure Statements	22
Definition of Terms.....	23
2007 California Civil Code (Selected Sections)	25



Executive Summary

STONEMARK AT LOS MORROS HOMEOWNERS ASSOCIATION

SCT Reserve Consultants, Inc. is pleased to provide this Level III Reserve Study (Financial Update Report). In order to comply with the California Civil Code, specifically the Davis-Stirling Common Interest Development Act, Section 1365, we are providing the following information to the Homeowners within the STONEMARK AT LOS MORROS HOMEOWNERS ASSOCIATION.

The following study has been prepared with several assumed factors taken into account: a 2.50% inflation rate; a 2.50% return on investment (interest earned); taxes on interest earned is paid for through the operating fund; an estimated remaining life of each reserve component; and an estimated current replacement cost of each reserve component.

As of December 31, 2009, the estimated ending reserve fund balance is \$134,400 and the estimated current replacement cost is \$1,400,287 for the portfolio of reserve components. The projected future replacement cost of the portfolio is \$2,195,914, calculated at an annually compounded inflation rate of 2.50%. The Association's level of funding which is based upon the estimated ending reserve fund balance divided by the reserve components' fully funded amount is 25.29%. This is referred to as Percent Funded. The Association would be 100.00% funded if there was \$531,372.00 in the reserve fund.

As required by Section 1365.a.2.d. the current deficiency (or surplus if the number is negative) in reserve funding expressed on a per unit basis is \$3,201.39. This is calculated by subtracting the ending balance (\$134,400) from the 100% funded figure (\$531,372.00), then divided by the number of ownership interests (124).

Our original analysis of the cash flow for this association indicated future inadequate funding if there were no annual increases to the Reserves. It is our understanding the Board of Directors will allocate a total of \$2,662 starting in 2010 (\$21.47 per unit per month for each of the 124 units) per month towards the reserve fund. To offset the future cash shortfall we recommend and have included increases of 100.00% starting in 2011 for 1 year, 50.00% starting in 2012 for 1 year, 20.50% starting in 2013 for 1 year and 3.00% starting in 2014 for 26 years. The increase is scheduled to take effect in the year 2011. The Board of Directors may change the amount; however, it will impact the level of funding on reserves. These numbers, by themselves, are not a clear indicator of financial strength and could indicate underfunding, overfunding, or adequate funding.

The following table represents additionally required information pursuant to the Davis-Stirling Common Interest Development Act, Section 1365.

Fiscal Year: January 1, 2010 through December 31, 2010

Category	Estimated Remaining Useful Lives	Estimated Current Replacement Cost	Fund Balance on Dec 31, 2009	Estimated Reserve Allocation	Estimated Special Assessment Allocation	Estimated Interest
Access Equipment	0 to 3	\$10,000	\$2,536	\$602.73	\$0.00	\$55.12
Asphalt & Concrete	0 to 12	\$121,840	\$24,104	\$5,729.08	\$0.00	\$523.95
Bldgs, Decks	16 to 16	\$85,680	\$3,107	\$738.57	\$0.00	\$67.54
Bldgs, Roof	26 to 36	\$547,750	\$12,567	\$2,986.93	\$0.00	\$273.17
Contingency	0 to 0	\$3,100	\$2,900	\$689.32	\$0.00	\$63.04
Fence/Gates/Rails	5 to 19	\$122,325	\$12,487	\$2,967.86	\$0.00	\$271.42
Interior Contents	4 to 11	\$13,590	\$1,039	\$246.95	\$0.00	\$22.58
Irrigation	4 to 4	\$10,000	\$1,161	\$275.85	\$0.00	\$25.23
Landscape	0 to 9	\$23,600	\$8,196	\$1,947.90	\$0.00	\$178.14
Lights	11 to 16	\$21,050	\$999	\$237.33	\$0.00	\$21.70
Mechanical/Plbg	3 to 19	\$51,950	\$4,757	\$1,130.57	\$0.00	\$103.40
Miscellaneous	16 to 26	\$65,400	\$2,222	\$528.11	\$0.00	\$48.30
Paint/Repair/Wtrpr	0 to 21	\$285,772	\$54,125	\$12,864.45	\$0.00	\$1,176.50
Pool & Spa	0 to 11	\$24,930	\$2,971	\$706.15	\$0.00	\$64.58
Pool/Spa Equipment	1 to 8	\$7,800	\$937	\$222.76	\$0.00	\$20.37
Tot Lot	3 to 16	\$5,500	\$292	\$69.43	\$0.00	\$6.35
Totals:		\$1,400,287	\$134,400	\$31,944	\$0	\$2,921



Assessment and Reserve Funding Disclosure Summary

(As illustrated by California Civil Code Section 1365.2.5)

(1) The current regular assessment per ownership interest is **variable** per month, of which approximately **\$21.47** is allocated to reserves.

<u># of units</u>	<u>Unit type</u>	<u>Monthly dues</u>
32	1x1	\$213.40
78	2x2	\$228.80
14	3x2	\$250.80

(2) Additional regular or special assessments that have already been scheduled to be imposed or charged, regardless of the purpose, if they have been approved by the board and/or members: **SEE ANSWER BELOW TO QUESTION #4 WHICH SUGGESTS THERE WILL BE INCREASES IN REGULAR ASSESSMENTS FOR RESERVE FUNDING.**

Date assessment will be due:	Amount per ownership interest per month:	Purpose of the assessment:
<i>(Intentionally left blank)</i>	<i>(Intentionally left blank)</i>	<i>(Intentionally left blank)</i>

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

Yes X No X

Yes, if the Association follows the recommended future reserve contribution increases as outlined in the reserve study and disclosed in the table of question (4) with consideration to the note below*.

No, if the Association does not follow the recommended future reserve contribution increases as outlined in the reserve study and disclosed in the table of question (4) with consideration to the note below*.

**Note: The information contained within the reserve study includes estimates of replacement value and life expectancies of the components and includes assumptions regarding future events based on information provided by and supplied to the Association's Board of Directors and/or management. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to the data of this disclosure summary. Therefore, the actual replacement cost and remaining life may vary from the reserve study and the variation may be significant. Additionally, inflation and other economic events may impact the reserve study, particularly over a thirty (30) year period of time which could impact the accuracy of the reserve study and the funds available to meet the association's obligation for repair and/or replacement of major components during the next thirty (30) years. Furthermore, the occurrence of vandalism, severe weather conditions, earthquakes, floods or other acts of God cannot be accounted for and are excluded when assessing life expectancy of the components. The reserve study only includes items that the Association has a clear and express responsibility to maintain, pursuant to the Association's CC&Rs.*

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

Approximate date assessment(s) will be due:	Amount per ownership interest per month:
100.00% starting in 2011 for 1 year, 50.00% starting in 2012 for 1 year, 20.50% starting in 2013 for 1 year and 3.00% starting in 2014 for 26 years	(Current amount) X (the increases)

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

(6) Based on the method of calculation in paragraph (4) of subdivision (b) of Section 1365.2.5, the estimated amount required in the reserve fund at the end of the current fiscal year is **\$574,121.00**, based in whole or in part on the last reserve study or update prepared by **SCT RESERVE CONSULTANTS, INC.** as of **December 31, 2010**. The projected reserve fund cash balance at the end of the current fiscal year is **\$102,338.40**, resulting in reserves being **17.83%** percent funded at this date. If an alternate, but generally accepted, method of calculation is also used, the required amount needed would be **\$66,927** and the Association's reserve fund balance (**\$134,400**) as of **January 1, 2010** plus contributions of **\$34,865** during the fiscal year (**January 1, 2010 through December 31, 2010**) will adequately provide cash to pay for such expenditures.

Explanation: *Cash Flow Methodology - a method of developing a reserve funding plan where contributions to the reserve fund are designed to offset the variable annual expenditures from the reserve fund. Different reserve funding plans are tested against the anticipated schedule of reserve expenses until the desired funding goal is achieved.*



Assessment and Reserve Funding Disclosure Summary

(As illustrated by California Civil Code Section 1365.2.5)

(continued)

7) **See below: 30-Year Reserve Funding Plan Table...** Based on the method of calculation in paragraph (4) of subdivision (b) of Section 1365.2.5 of the Civil Code, the estimated amount required in the reserve fund at the end of each of the next five budget years is \$ (see "100% Funded" column below), and the projected reserve fund cash balance in each of those years, taking into account only assessments already approved and other known revenues, is \$ (see "Cash Flow (Balance with Funding Plan" column below), leaving the reserve at (see "Percent Funded" column below) percent funding. If the reserve funding plan approved by the association is implemented, the projected reserve fund cash balance in each of those years will be \$ (see "Cash Flow (Balance with Funding Plan" column below), leaving the reserve at (see "Percent Funded" column below) percent funding. Note: The financial representations set forth in this summary are based on the best estimates of the preparer at that time. The estimates are subject to change.

30-Year Reserve Funding Plan Table

Fiscal Year: January 01, 2010 - December 31, 2010							
Year	End of Year			Revenue			Expenditures
	100% Funded	Cash Flow (Balance with Funding Plan)	Percent Funded (EOY)	Contribution, Interest, Spec Assess	Contribution Unit/Month	Contribution % Change	Components, Taxes, Deferred Exp
2009	\$531,372	\$134,400	25.29%				
2010	\$574,121	\$102,338	17.83%	\$34,865	\$21.47		\$66,927
2011	\$570,147	\$52,075	9.13%	\$65,764	\$42.94	100.00%	\$116,028
2012	\$672,940	\$136,111	20.23%	\$98,262	\$64.40	50.00%	\$14,226
2013	\$752,933	\$214,549	28.50%	\$119,929	\$77.61	20.50%	\$41,491
2014	\$734,376	\$196,434	26.75%	\$124,050	\$79.93	3.00%	\$142,165
2015	\$755,560	\$218,558	28.93%	\$127,708	\$82.33	3.00%	\$105,585
2016	\$738,486	\$203,864	27.61%	\$131,440	\$84.80	3.00%	\$146,134
2017	\$868,136	\$335,341	38.63%	\$136,827	\$87.35	3.00%	\$5,349
2018	\$960,227	\$430,871	44.87%	\$143,522	\$89.97	3.00%	\$47,993
2019	\$1,051,662	\$527,000	50.11%	\$149,930	\$92.67	3.00%	\$53,800
2020	\$1,127,894	\$609,556	54.04%	\$156,282	\$95.45	3.00%	\$73,726
2021	\$1,082,807	\$573,554	52.97%	\$161,006	\$98.31	3.00%	\$197,008
2022	\$952,356	\$454,609	47.74%	\$163,380	\$101.26	3.00%	\$282,325
2023	\$1,069,782	\$582,334	54.43%	\$168,253	\$104.30	3.00%	\$40,528
2024	\$1,230,577	\$754,650	61.32%	\$176,696	\$107.42	3.00%	\$4,380
2025	\$1,324,034	\$862,190	65.12%	\$184,918	\$110.65	3.00%	\$77,378
2026	\$1,067,414	\$625,437	58.59%	\$187,905	\$113.97	3.00%	\$424,658
2027	\$1,222,173	\$797,423	65.25%	\$192,589	\$117.39	3.00%	\$20,603
2028	\$1,378,102	\$972,714	70.58%	\$202,164	\$120.91	3.00%	\$26,873
2029	\$1,419,364	\$1,036,875	73.05%	\$210,439	\$124.53	3.00%	\$146,277
2030	\$1,354,208	\$998,149	73.71%	\$216,213	\$128.27	3.00%	\$254,940
2031	\$1,301,509	\$974,219	74.85%	\$221,172	\$132.12	3.00%	\$245,102
2032	\$1,492,958	\$1,194,337	80.00%	\$229,759	\$136.08	3.00%	\$9,641
2033	\$1,646,327	\$1,379,607	83.80%	\$240,856	\$140.16	3.00%	\$55,585
2034	\$1,809,893	\$1,577,926	87.18%	\$251,910	\$144.37	3.00%	\$53,592
2035	\$1,961,291	\$1,767,326	90.11%	\$263,183	\$148.70	3.00%	\$73,782
2036	\$1,001,897	\$861,526	85.99%	\$259,802	\$153.16	3.00%	\$1,165,602
2037	\$1,190,712	\$1,094,348	91.91%	\$259,370	\$157.76	3.00%	\$26,548
2038	\$1,170,266	\$1,123,862	96.03%	\$269,483	\$162.49	3.00%	\$239,969
2039	\$1,388,424	\$1,393,103	100.34%	\$280,700	\$167.36	3.00%	\$11,460
30-Year Sum:				\$5,428,378			\$4,169,675



Summary

In accordance with our proposal, 2009-119, SCT Reserve Consultants, Inc. is pleased to provide this **Level III Reserve Study Financial Update Report for STONEMARK AT LOS MORROS HOMEOWNERS ASSOCIATION**. Our study was performed in accordance with the Davis-Stirling Common Interest Development Act, specifically §1365 and §1365.5, of the California Civil Code. This *condominium conversion* common interest development (CID) is located at 5013 Los Morros Way, Oceanside, CA 92057. We are using an inception date for the components of January 1, 2005. ***This study is for January 1, 2010 through December 31, 2010, the Association's fiscal year.***

In general, reserve funds are funds set aside from collected association fees paid by owners of a common interest development. These funds earn interest and are disbursed when deemed necessary by the Board of Directors. The purpose of a reserve study is to determine how much money should exist in a reserve fund at a given point in time or to project required future contributions and expenditure amounts so that sufficient reserve funds are available when needed. Our reserve study is generated using proprietary SCT software and a combination of local industry standards and national average replacement costs.

The SCT software utilizes the weighted average life (WAL) of the reserve components. The future cost method for the WAL is calculated by using the current replacement cost of each component, as of the analysis date, and the number of years until each reserve component is scheduled to be replaced. This determines the monthly reserve contributions needed and calculates the future reserve balances.

A 30-year "Cash Flow and Percent Funded Projection" analysis and "Graph" are produced to verify and define the relationship of the Cash Flow (annual beginning balance) with respect to the 100% funded amount. Ideally, the Cash Flow line of the graph should run parallel to and below the "Percent Funded" line of the graph, see funding goals.

The following study has been prepared with several assumed factors taken into account: 2.50% inflation rate; a 2.50% return on investment (interest earned); taxes on interest earned is paid for through the operating fund; an estimated remaining life of each reserve component; and an estimated current replacement cost of each reserve component.

A contingency fund of 9.7% has been established to pay for incidental and miscellaneous reserve expenditures. Otherwise, any component that has a life cycle (full life) of less than two years should be budgeted and paid for through normal operating or property maintenance funds and is not included as part of this study.

As required by Section 1365.a.2.d. **The current deficiency (or surplus if the number is negative) in reserve funding expressed on a per unit basis is \$3,201.39.** This is calculated by subtracting the ending balance (\$134,400) from the 100% funded figure (\$531,372.00), then divided by the number of ownership interests (124).



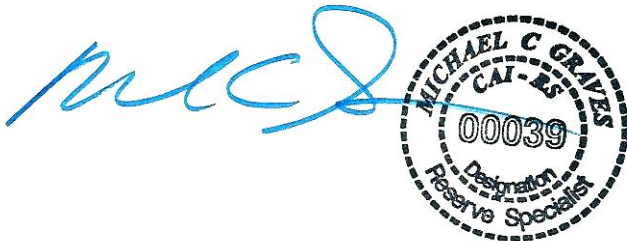
Summary (continued)

As of January 1, 2010, the estimated reserve fund balance is \$134,400 and the estimated current replacement cost is \$1,400,287 of the portfolio of reserve components. The projected future replacement cost of the portfolio is \$2,195,914, calculated at an annually compounded inflation rate of 2.50%. The Davis-Stirling Common Interest Development Act requires the disclosure of the *current reserve fund balance divided by the current replacement cost* (this is not *Percent Funded*). Currently, *this factor for STONEMARK AT LOS MORROS HOMEOWNERS ASSOCIATION is 9.60%*.

The Association's level of funding for the fiscal year (January 1, 2010 through December 31, 2010) which is based upon the final estimated reserve fund balance divided by the reserve components' fully funded amount is **17.83%, and is referred to as Percent Funded**. The Association would be 100.00% funded if there was \$574,121.00 in the reserve fund.

Our original analysis of the cash flow for this association indicated future inadequate funding (see the graph, the "square box and/or pink line"). This line represents the cash flow if there were no annual increases to the Reserves. ***It is our understanding the Board of Directors will allocate a total of \$2,662 starting in 2010 (\$21.47 per unit per month for each of the 124 units) per month towards the reserve fund. To offset the future cash shortfall we recommend and have included increases of 100.00% starting in 2011 for 1 year, 50.00% starting in 2012 for 1 year, 20.50% starting in 2013 for 1 year and 3.00% starting in 2014 for 26 years. The increase is scheduled to take effect in the year 2011.*** The Board of Directors may raise or lower this amount, however, it will impact the level of funding on reserves. These numbers, by themselves, are not a clear indicator of financial strength and could indicate underfunding, overfunding, or adequate funding.

Sincerely,



The image shows a handwritten signature in blue ink that reads "m c g". To the right of the signature is a circular professional seal. The seal contains the text "MICHAEL C. GRAVES" at the top, "CAI-ES" in the middle, and "00039" in the center. Below the number, it says "Designation" and "Reserve Specialist". The seal has a dashed outer border.

Michael C. Graves, R.S. #00039
SCT Reserve Consultants, Inc.



Year 2010 Reserve Budget (AICPA Approved)

Categories	100% Funded Dec 31, 2010	Percent Funded Dec 31, 2010	Beginning Balance Jan 01, 2010	Annual Reserve Allocation	Monthly Reserve Allocation	Special Assessment Allocation	Annual Interest Allocation	Expenditure	Ending Balance Dec 31, 2010
Access Equipment	\$6,697	17.83%	\$2,535.90	\$602.73	\$50.23	\$0.00	\$55.12	\$2,000.00	\$1,193.76
Asphalt & Concrete	\$69,886	17.83%	\$24,104.32	\$5,729.08	\$477.42	\$0.00	\$523.95	\$17,900.00	\$12,457.34
Bldgs, Decks	\$21,955	17.83%	\$3,107.42	\$738.57	\$61.55	\$0.00	\$67.54	\$0.00	\$3,913.53
Bldgs, Roof	\$88,791	17.83%	\$12,567.10	\$2,986.93	\$248.91	\$0.00	\$273.17	\$0.00	\$15,827.20
Contingency	\$3,100	17.83%	\$2,900.22	\$689.32	\$57.44	\$0.00	\$63.04	\$3,100.00	\$552.58
Fence/Gates/Rails	\$88,224	17.83%	\$12,486.85	\$2,967.86	\$247.32	\$0.00	\$271.42	\$0.00	\$15,726.13
Interior Contents	\$7,341	17.83%	\$1,039.01	\$246.95	\$20.58	\$0.00	\$22.58	\$0.00	\$1,308.55
Irrigation	\$8,200	17.83%	\$1,160.59	\$275.85	\$22.99	\$0.00	\$25.23	\$0.00	\$1,461.67
Landscape	\$13,024	17.83%	\$8,195.52	\$1,947.90	\$162.32	\$0.00	\$178.14	\$8,000.00	\$2,321.56
Lights	\$7,055	17.83%	\$998.54	\$237.33	\$19.78	\$0.00	\$21.70	\$0.00	\$1,257.57
Mechanical/Plbg	\$33,608	17.83%	\$4,756.73	\$1,130.57	\$94.21	\$0.00	\$103.40	\$0.00	\$5,990.70
Miscellaneous	\$15,699	17.83%	\$2,221.97	\$528.11	\$44.01	\$0.00	\$48.30	\$0.00	\$2,798.38
Paint/Repair/Wtrpr	\$184,398	17.83%	\$54,125.42	\$12,864.45	\$1,072.04	\$0.00	\$1,176.50	\$35,297.00	\$32,869.37
Pool & Spa	\$17,457	17.83%	\$2,971.02	\$706.15	\$58.85	\$0.00	\$64.58	\$630.00	\$3,111.75
Pool/Spa Equipment	\$6,622	17.83%	\$937.25	\$222.76	\$18.56	\$0.00	\$20.37	\$0.00	\$1,180.39
Tot Lot	\$2,064	17.83%	\$292.13	\$69.43	\$5.79	\$0.00	\$6.35	\$0.00	\$367.91
Totals:	\$574,121	17.83%	\$134,400.00	\$31,944.00	\$2,662.00	\$0.00	\$2,921.40	\$66,927.00	\$102,338.40



Component Identification Report

Identified Major Components	Quantity	Measurement Basis	Estimated Full Life In Years	Estimated Remaining Life In Years	Basis Cost	Estimated Current Replacement Cost	Estimated Future Replacement Cost (2.5% annual inflation)	Straight Line Allocation (Annual)	100% Funded Jan 01, 2010
Access Equipment									
Gate operators	4	Each	10	3	\$2,000.00	\$8,000	\$8,615	\$800	\$5,600
Sentex entry phone	1	Each	15	0	\$2,000.00	\$2,000	\$2,897	\$133	\$2,000
<i>Subtotal:</i>						\$10,000	\$11,512	\$933	\$7,600
Asphalt & Concrete									
Asphalt crack fill	1	Lump Sum	3	0	\$500.00	\$500	\$538	\$167	\$500
Asphalt replace (3%)	87,000	Square Feet	15	2	\$0.12	\$10,440	\$10,969	\$696	\$9,048
Concrete replacement	1	Lump Sum	10	3	\$6,500.00	\$6,500	\$7,000	\$650	\$4,550
Repair/overlay/R&R	87,000	Square Feet	25	12	\$1.00	\$87,000	\$117,005	\$3,480	\$45,240
Seal/stripe/repair	87,000	Square Feet	4	0	\$0.20	\$17,400	\$19,206	\$4,350	\$17,400
<i>Subtotal:</i>						\$121,840	\$154,718	\$9,343	\$76,738
Bldgs, Decks									
Decks, resurface	8,568	Square Feet	20	16	\$10.00	\$85,680	\$127,192	\$4,284	\$17,136
<i>Subtotal:</i>						\$85,680	\$127,192	\$4,284	\$17,136
Bldgs, Roof									
Gutters/downspouts	14,000	Linear Feet	40	36	\$8.00	\$112,000	\$272,444	\$2,800	\$11,200
Tile/underlayment	1,162	Squares	30	26	\$375.00	\$435,750	\$828,053	\$14,525	\$58,100
<i>Subtotal:</i>						\$547,750	\$1,100,497	\$17,325	\$69,300
Contingency									
Contingency (9.7%)	1	Lump Sum	1	0	\$3,100.00	\$3,100	\$3,177	\$3,100	\$3,100
<i>Subtotal:</i>						\$3,100	\$3,177	\$3,100	\$3,100
Fence/Gates/Rails									
Fence @ perim wall	2,000	Linear Feet	40	19	\$15.00	\$30,000	\$47,960	\$750	\$15,750
Fence, 6' entry	120	Linear Feet	30	5	\$40.00	\$4,800	\$5,431	\$160	\$4,000
Fence, mtl 5' pool	220	Linear Feet	35	10	\$35.00	\$7,700	\$9,857	\$220	\$5,500
Gate, trash mtl	5	Each	30	5	\$700.00	\$3,500	\$3,960	\$117	\$2,917
Gates, pedestrian	2	Each	35	10	\$350.00	\$700	\$896	\$28	\$420
Gates, pools	2	Each	30	5	\$250.00	\$500	\$566	\$17	\$417
Gates, vehicle	4	Each	35	10	\$2,000.00	\$8,000	\$10,241	\$320	\$4,800



Component Identification Report

(continued)

Identified Major Components	Quantity	Measurement Basis	Estimated Full Life In Years	Estimated Remaining Life In Years	Basis Cost	Estimated Current Replacement Cost	Estimated Future Replacement Cost (2.5% annual inflation)	Straight Line Allocation (Annual)	100% Funded Jan 01, 2010
Railing, stairs	1,845	Linear Feet	30	5	\$25.00	\$46,125	\$52,186	\$1,538	\$38,438
Railing, stairwells	680	Linear Feet	40	19	\$25.00	\$17,000	\$27,177	\$425	\$8,925
Walls, planter msnry	1	Lump Sum	15	11	\$4,000.00	\$4,000	\$5,248	\$267	\$1,067
Subtotal:						\$122,325	\$163,522	\$3,842	\$82,234
Interior Contents									
Drip system	1	Lump Sum	15	4	\$5,000.00	\$5,000	\$5,519	\$333	\$3,667
Exercise equipment	1	Lump Sum	15	11	\$5,000.00	\$5,000	\$6,560	\$333	\$1,333
Flooring, laminate	264	Square Feet	12	8	\$10.00	\$2,640	\$3,217	\$220	\$880
Flooring, rubber mat	38	Square Yards	12	8	\$25.00	\$950	\$1,157	\$79	\$317
Subtotal:						\$13,590	\$16,453	\$965	\$6,197
Irrigation									
Irrigation system	1	Lump Sum	15	4	\$10,000.00	\$10,000	\$11,038	\$667	\$7,333
Subtotal:						\$10,000	\$11,038	\$667	\$7,333
Landscape									
Planter/area refurb	1	Lump Sum	10	6	\$6,000.00	\$6,000	\$6,958	\$600	\$2,400
Tree trimming	1	Lump Sum	3	0	\$8,000.00	\$8,000	\$8,615	\$2,667	\$8,000
Trees remove/replace	1	Lump Sum	30	9	\$9,600.00	\$9,600	\$11,989	\$320	\$6,720
Subtotal:						\$23,600	\$27,562	\$3,587	\$17,120
Lights									
Exterior, buildings	248	Each	15	11	\$50.00	\$12,400	\$16,270	\$827	\$3,307
Exterior, garage lts	18	Each	15	11	\$75.00	\$1,350	\$1,771	\$90	\$360
Exterior, pool lts	10	Each	15	11	\$500.00	\$5,000	\$6,560	\$333	\$1,333
Landscape lights	1	Lump Sum	15	11	\$700.00	\$700	\$918	\$47	\$187
Post lights	4	Each	20	16	\$400.00	\$1,600	\$2,375	\$80	\$320
Subtotal:						\$21,050	\$27,894	\$1,377	\$5,507
Mechanical/Plbg									
Backflow valves	17	Each	30	9	\$1,250.00	\$21,250	\$26,538	\$708	\$14,875
Interior plumbing	1	Lump Sum	5	3	\$5,000.00	\$5,000	\$5,384	\$1,000	\$2,000



Component Identification Report

(continued)

Identified Major Components	Quantity	Measurement Basis	Estimated Full Life In Years	Estimated Remaining Life In Years	Basis Cost	Estimated Current Replacement Cost	Estimated Future Replacement Cost (2.5% annual inflation)	Straight Line Allocation (Annual)	100% Funded Jan 01, 2010
Underground utility	1	Lump Sum	40	19	\$25,000.00	\$25,000	\$39,966	\$625	\$13,125
Water heater @ pool	1	Each	20	8	\$700.00	\$700	\$853	\$35	\$420
<i>Subtotal:</i>						\$51,950	\$72,741	\$2,368	\$30,420
Miscellaneous									
Entry monument	2	Each	20	16	\$1,500.00	\$3,000	\$4,454	\$150	\$600
Mailboxes	124	Each	30	26	\$100.00	\$12,400	\$23,564	\$413	\$1,653
Termite treatment	1	Lump Sum	20	16	\$50,000.00	\$50,000	\$74,225	\$2,500	\$10,000
<i>Subtotal:</i>						\$65,400	\$102,243	\$3,063	\$12,253
Paint/Repair/Wtrpr									
Balconies, coating	8,568	Square Feet	5	0	\$1.20	\$10,282	\$11,633	\$2,056	\$10,282
Bldgs, stucco	140,000	Square Feet	8	4	\$0.65	\$91,000	\$100,447	\$11,375	\$45,500
Caulk siding	1	Lump Sum	5	0	\$1,700.00	\$1,700	\$1,923	\$340	\$1,700
Doors, units	124	Each	10	6	\$45.00	\$5,580	\$6,471	\$558	\$2,232
Doors, utility	51	Each	8	4	\$45.00	\$2,295	\$2,533	\$287	\$1,148
Fence @ perim wall	2,000	Linear Feet	5	0	\$2.00	\$4,000	\$4,526	\$800	\$4,000
Fence, 6' entry	120	Linear Feet	5	0	\$5.00	\$600	\$679	\$120	\$600
Fence, metal	1	Lump Sum	5	0	\$3,000.00	\$3,000	\$3,394	\$600	\$3,000
Fence, mtl 5' pool	220	Linear Feet	5	0	\$4.00	\$880	\$996	\$176	\$880
Gates, pedestrian	4	Each	5	0	\$45.00	\$180	\$204	\$36	\$180
Gates, trash mtl	5	Each	5	0	\$200.00	\$1,000	\$1,131	\$200	\$1,000
Gates, vehicle	4	Each	5	0	\$200.00	\$800	\$905	\$160	\$800
Railing, stairs	1,845	Linear Feet	5	0	\$3.00	\$5,535	\$6,262	\$1,107	\$5,535
Railing, stairwell	680	Linear Feet	5	0	\$4.00	\$2,720	\$3,077	\$544	\$2,720
Red curb	1	Lump Sum	5	0	\$1,200.00	\$1,200	\$1,358	\$240	\$1,200
Siding, replace	1	Lump Sum	15	11	\$7,000.00	\$7,000	\$9,185	\$467	\$1,867
Stair stringers	68	Each	5	0	\$50.00	\$3,400	\$3,847	\$680	\$3,400
Walls int com area	1,800	Square Feet	12	8	\$0.50	\$900	\$1,097	\$75	\$300
Waterproofing	1	Lump Sum	25	21	\$35,000.00	\$35,000	\$58,785	\$1,400	\$5,600
Wood trim, replace	1	Lump Sum	15	11	\$10,000.00	\$10,000	\$13,121	\$667	\$2,667



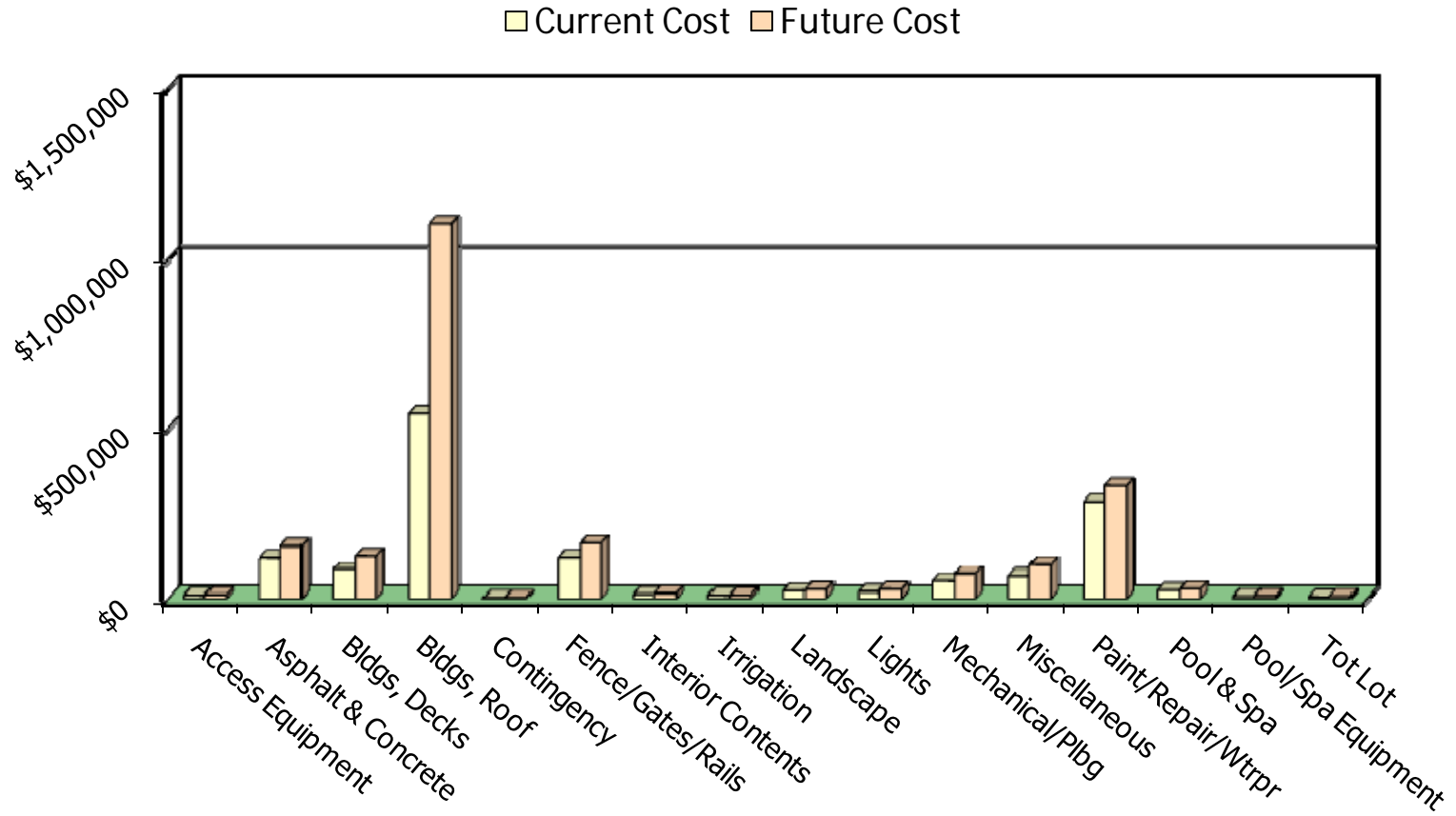
Component Identification Report

(continued)

Identified Major Components	Quantity	Measurement Basis	Estimated Full Life In Years	Estimated Remaining Life In Years	Basis Cost	Estimated Current Replacement Cost	Estimated Future Replacement Cost (2.5% annual inflation)	Straight Line Allocation (Annual)	100% Funded Jan 01, 2010
Wood, exposed ext	141,000	Square Feet	5	1	\$0.70	\$98,700	\$101,167	\$19,740	\$78,960
<i>Subtotal:</i>						\$285,772	\$332,741	\$41,628	\$173,571
Pool & Spa									
BBQ grill, ss	1	Each	12	8	\$2,000.00	\$2,000	\$2,437	\$167	\$667
Deck caulking	140	Linear Feet	3	0	\$4.50	\$630	\$678	\$210	\$630
Deck coping	140	Linear Feet	20	10	\$20.00	\$2,800	\$3,584	\$140	\$1,400
Deck R&R, stamped	1	Lump Sum	15	8	\$3,500.00	\$3,500	\$4,264	\$233	\$1,633
Furniture	1	Lump Sum	10	6	\$3,500.00	\$3,500	\$4,059	\$350	\$1,400
Pool resurf/retile	1	Lump Sum	15	1	\$7,500.00	\$7,500	\$7,687	\$500	\$7,000
Spa resurf/retile	1	Lump Sum	7	1	\$2,500.00	\$2,500	\$2,562	\$357	\$2,143
Table covers, thatch	1	Lump Sum	15	11	\$2,500.00	\$2,500	\$3,280	\$167	\$667
<i>Subtotal:</i>						\$24,930	\$28,551	\$2,124	\$15,540
Pool/Spa Equipment									
Pool filter	1	Each	10	3	\$900.00	\$900	\$969	\$90	\$630
Pool heater	1	Each	20	8	\$700.00	\$700	\$853	\$35	\$420
Pool pumpset	1	Each	6	1	\$700.00	\$700	\$717	\$117	\$583
Spa filter	1	Each	10	3	\$900.00	\$900	\$969	\$90	\$630
Spa heater	1	Each	10	3	\$2,500.00	\$2,500	\$2,692	\$250	\$1,750
Spa pumpset circ	1	Each	6	1	\$700.00	\$700	\$717	\$117	\$583
Spa pumpset jet	2	Each	12	3	\$700.00	\$1,400	\$1,508	\$117	\$1,050
<i>Subtotal:</i>						\$7,800	\$8,425	\$816	\$5,646
Tot Lot									
Bench	1	Each	15	11	\$400.00	\$400	\$525	\$27	\$107
Picnic tables	2	Each	10	3	\$550.00	\$1,100	\$1,185	\$110	\$770
Play structure	1	Each	20	16	\$4,000.00	\$4,000	\$5,938	\$200	\$800
<i>Subtotal:</i>						\$5,500	\$7,648	\$337	\$1,677
Totals:						\$1,400,287	\$2,195,914	\$95,759	\$531,372



Component Replacement Cost Chart (by category)



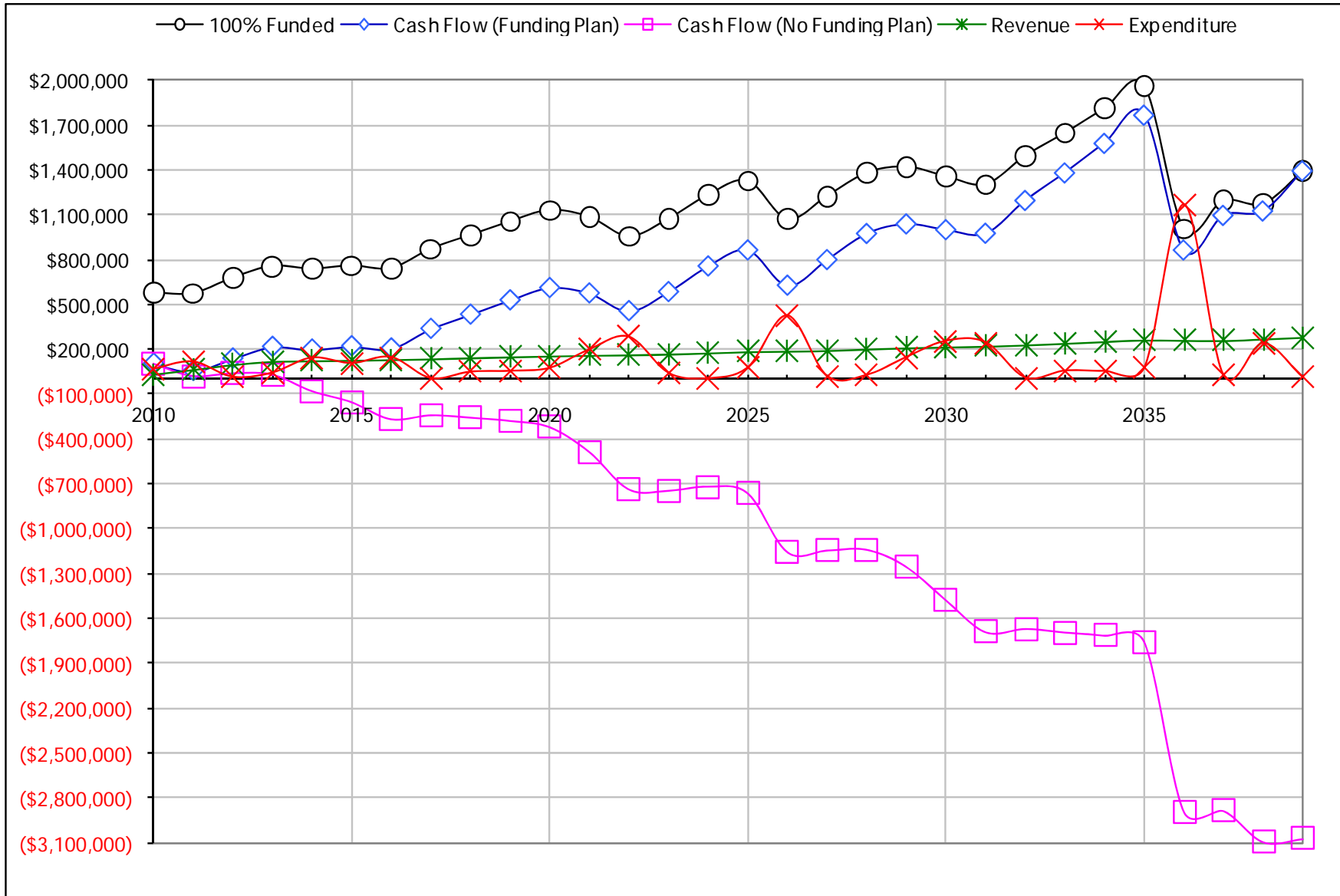
Cash Flow and Percent Funded Projections

Fiscal Year: January 01, 2010 - December 31, 2010												
Year	End of Year				Revenue					Expenditures		
	100% Funded	Cash Flow (Balance with Funding Plan)	Percent Funded (EOY)	Cash Flow (Balance without Funding Plan)	Contribution Annual	Contribution Unit/Month	Contribution %Change	Special Assessment, Bank & Litigation	Interest	Components	Deferred & Non-Recurring	Taxes
2009	\$531,372	\$134,400	25.29%									
2010	\$574,121	\$102,338	17.83%	\$102,338	\$31,944	\$21.47		\$0	\$2,921	\$66,927	\$0	\$0
2011	\$570,147	\$52,075	9.13%	\$19,695	\$63,888	\$42.94	100.00%	\$0	\$1,876	\$116,028	\$0	\$0
2012	\$672,940	\$136,111	20.23%	\$38,153	\$95,832	\$64.40	50.00%	\$0	\$2,430	\$14,226	\$0	\$0
2013	\$752,933	\$214,549	28.50%	\$29,441	\$115,477	\$77.61	20.50%	\$0	\$4,452	\$41,491	\$0	\$0
2014	\$734,376	\$196,434	26.75%	(\$80,711)	\$118,942	\$79.93	3.00%	\$0	\$5,109	\$142,165	\$0	\$0
2015	\$755,560	\$218,558	28.93%	(\$154,352)	\$122,510	\$82.33	3.00%	\$0	\$5,198	\$105,585	\$0	\$0
2016	\$738,486	\$203,864	27.61%	(\$268,542)	\$126,185	\$84.80	3.00%	\$0	\$5,255	\$146,134	\$0	\$0
2017	\$868,136	\$335,341	38.63%	(\$241,947)	\$129,971	\$87.35	3.00%	\$0	\$6,856	\$5,349	\$0	\$0
2018	\$960,227	\$430,871	44.87%	(\$257,996)	\$133,870	\$89.97	3.00%	\$0	\$9,652	\$47,993	\$0	\$0
2019	\$1,051,662	\$527,000	50.11%	(\$279,852)	\$137,886	\$92.67	3.00%	\$0	\$12,043	\$53,800	\$0	\$0
2020	\$1,127,894	\$609,556	54.04%	(\$321,634)	\$142,023	\$95.45	3.00%	\$0	\$14,259	\$73,726	\$0	\$0
2021	\$1,082,807	\$573,554	52.97%	(\$486,698)	\$146,283	\$98.31	3.00%	\$0	\$14,723	\$197,008	\$0	\$0
2022	\$952,356	\$454,609	47.74%	(\$737,079)	\$150,672	\$101.26	3.00%	\$0	\$12,708	\$282,325	\$0	\$0
2023	\$1,069,782	\$582,334	54.43%	(\$745,663)	\$155,192	\$104.30	3.00%	\$0	\$13,061	\$40,528	\$0	\$0
2024	\$1,230,577	\$754,650	61.32%	(\$718,099)	\$159,848	\$107.42	3.00%	\$0	\$16,848	\$4,380	\$0	\$0
2025	\$1,324,034	\$862,190	65.12%	(\$763,533)	\$164,643	\$110.65	3.00%	\$0	\$20,275	\$77,378	\$0	\$0
2026	\$1,067,414	\$625,437	58.59%	(\$1,156,247)	\$169,583	\$113.97	3.00%	\$0	\$18,323	\$424,658	\$0	\$0
2027	\$1,222,173	\$797,423	65.25%	(\$1,144,906)	\$174,670	\$117.39	3.00%	\$0	\$17,919	\$20,603	\$0	\$0
2028	\$1,378,102	\$972,714	70.58%	(\$1,139,835)	\$179,910	\$120.91	3.00%	\$0	\$22,254	\$26,873	\$0	\$0
2029	\$1,419,364	\$1,036,875	73.05%	(\$1,254,168)	\$185,307	\$124.53	3.00%	\$0	\$25,131	\$146,277	\$0	\$0
2030	\$1,354,208	\$998,149	73.71%	(\$1,477,164)	\$190,867	\$128.27	3.00%	\$0	\$25,347	\$254,940	\$0	\$0
2031	\$1,301,509	\$974,219	74.85%	(\$1,690,322)	\$196,593	\$132.12	3.00%	\$0	\$24,580	\$245,102	\$0	\$0
2032	\$1,492,958	\$1,194,337	80.00%	(\$1,668,019)	\$202,490	\$136.08	3.00%	\$0	\$27,268	\$9,641	\$0	\$0
2033	\$1,646,327	\$1,379,607	83.80%	(\$1,691,660)	\$208,565	\$140.16	3.00%	\$0	\$32,290	\$55,585	\$0	\$0
2034	\$1,809,893	\$1,577,926	87.18%	(\$1,713,308)	\$214,822	\$144.37	3.00%	\$0	\$37,088	\$53,592	\$0	\$0
2035	\$1,961,291	\$1,767,326	90.11%	(\$1,755,146)	\$221,267	\$148.70	3.00%	\$0	\$41,916	\$73,782	\$0	\$0
2036	\$1,001,897	\$861,526	85.99%	(\$2,888,804)	\$227,905	\$153.16	3.00%	\$0	\$31,897	\$1,165,602	\$0	\$0
2037	\$1,190,712	\$1,094,348	91.91%	(\$2,883,408)	\$234,742	\$157.76	3.00%	\$0	\$24,628	\$26,548	\$0	\$0
2038	\$1,170,266	\$1,123,862	96.03%	(\$3,091,433)	\$241,784	\$162.49	3.00%	\$0	\$27,699	\$239,969	\$0	\$0
2039	\$1,388,424	\$1,393,103	100.34%	(\$3,070,949)	\$249,038	\$167.36	3.00%	\$0	\$31,663	\$11,460	\$0	\$0
Totals:					\$4,892,709			\$0	\$535,669	\$4,169,675	\$0	\$0



Cash Flow and Percent Funded Chart

(December 31, 2010)



10-Year Expenditure and Cash Flow Projection

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Beginning Balance	\$134,400	\$102,338	\$52,075	\$136,111	\$214,549	\$196,434	\$218,558	\$203,864	\$335,341	\$430,871
Contribution (+)	\$31,944	\$63,888	\$95,832	\$115,477	\$118,942	\$122,510	\$126,185	\$129,971	\$133,870	\$137,886
<i>Average/Month/Unit</i>	\$21.47	\$42.94	\$64.40	\$77.61	\$79.93	\$82.33	\$84.80	\$87.35	\$89.97	\$92.67
<i>Percent Change</i>		100.00%	50.00%	20.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Special Assessments (+)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Interest Earned (+)	\$2,921	\$1,876	\$2,430	\$4,452	\$5,109	\$5,198	\$5,255	\$6,856	\$9,652	\$12,043
Tax on Interest (-)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Interest	\$2,921	\$1,876	\$2,430	\$4,452	\$5,109	\$5,198	\$5,255	\$6,856	\$9,652	\$12,043
Access Equipment										
Gate operators				\$8,615						
Sentex entry phone	\$2,000									
Asphalt & Concrete										
Asphalt crack fill	\$500			\$538			\$580			\$624
Asphalt replace (3%)			\$10,969							
Concrete replacement				\$7,000						
Repair/overlay/R&R										
Seal/stripe/repair	\$17,400				\$19,206				\$21,200	
Bldgs, Decks										
Decks, resurface										
Bldgs, Roof										
Gutters/downspouts										
Tile/underlayment										
Contingency										
Contingency	\$3,100	\$3,178	\$3,257	\$3,338	\$3,422	\$3,507	\$3,595	\$3,685	\$3,777	\$3,871
Fence/Gates/Rails										
Fence @ perim wall										
Fence, 6' entry						\$5,431				
Fence, mtl 5' pool										
Gate, trash mtl						\$3,960				
Gates, pedestrian										
Gates, pools						\$566				
Gates, vehicle										
Railing, stairs						\$52,186				



10-Year Expenditure and Cash Flow Projection

(continued)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Railing, stairwells										
Walls, planter msnry										
Interior Contents										
Drip system					\$5,519					
Exercise equipment										
Flooring, laminate									\$3,217	
Flooring, rubber mat									\$1,157	
Irrigation										
Irrigation system					\$11,038					
Landscape										
Planter/area refurb							\$6,958			
Tree trimming	\$8,000			\$8,615			\$9,278			\$9,991
Trees remove/replace										\$11,989
Lights										
Exterior, buildings										
Exterior, garage lts										
Exterior, pool lts										
Landscape lights										
Post lights										
Mechanical/Plbg										
Backflow valves										\$26,538
Interior plumbing				\$5,384					\$6,092	
Underground utility										
Water heater @ pool									\$853	
Miscellaneous										
Entry monument										
Mailboxes										
Termite treatment										
Paint/Repair/Wtrpr										
Balconies, coating	\$10,282					\$11,633				
Bldgs, stucco					\$100,447					
Caulk siding	\$1,700					\$1,923				
Doors, units							\$6,471			
Doors, utility					\$2,533					



10-Year Expenditure and Cash Flow Projection

(continued)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fence @ perim wall	\$4,000					\$4,526				
Fence, 6' entry	\$600					\$679				
Fence, metal	\$3,000					\$3,394				
Fence, mtl 5' pool	\$880					\$996				
Gates, pedestrian	\$180					\$204				
Gates, trash mtl	\$1,000					\$1,131				
Gates, vehicle	\$800					\$905				
Railing, stairs	\$5,535					\$6,262				
Railing, stairwell	\$2,720					\$3,077				
Red curb	\$1,200					\$1,358				
Siding, replace										
Stair stringers	\$3,400					\$3,847				
Walls int com area									\$1,097	
Waterproofing										
Wood trim, replace										
Wood, exposed ext		\$101,167					\$114,462			
Pool & Spa										
BBQ grill, ss									\$2,437	
Deck caulking	\$630			\$678			\$731			\$787
Deck coping										
Deck R&R, stamped									\$4,264	
Furniture							\$4,059			
Pool resurf/retile		\$7,687								
Spa resurf/retile		\$2,562							\$3,046	
Table covers, thatch										
Pool/Spa Equipment										
Pool filter				\$969						
Pool heater									\$853	
Pool pumpset		\$717						\$832		
Spa filter				\$969						
Spa heater				\$2,692						
Spa pumpset circ		\$717						\$832		
Spa pumpset jet				\$1,508						
Tot Lot										



10-Year Expenditure and Cash Flow Projection

(continued)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Bench										
Picnic tables				\$1,185						
Play structure										
Component Exp (-)	\$66,927	\$116,028	\$14,226	\$41,491	\$142,165	\$105,585	\$146,134	\$5,349	\$47,993	\$53,800
Non-recurring Exp (-)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Ending Balance	\$102,338	\$52,075	\$136,111	\$214,549	\$196,434	\$218,558	\$203,864	\$335,341	\$430,871	\$527,000





Personal Credentials

Michael C. Graves R.S.
Reserve Funding Specialist

Designations

- ◆ R.S., 2000, Community Association Institute

Degrees

- ◆ B.A., Economics, 1983, San Diego State University
- ◆ A.S., Business Administration, 1980 Citrus College

Associations

- ◆ California Association of Community Managers (CACM):
Instructor for Facilities Management Course VIII, "The Guide to Reserve Study Components & Funding", Ambassador Committee Member
- ◆ Community Associations Institute (CAI), Affiliate Member:
Coachella Valley Chapter (CV)
Greater Inland Empire Chapter (GRIE)
- Past President,
Orange County Regional Chapter (OCRC)
- Board of Directors
San Diego Chapter (SD)
- Past Board Treasurer

Publications

- ◆ "Ask The Experts", O.C. View, May/June 2004.
- ◆ "Fiduciary Responsibility Forum", CondoManagement, December 2003.
- ◆ "Does Our Association Have Money Or Not", Quorum, June 2001.
- ◆ "How Do You Use Your Reserve Study To Finance Remodeling Work", Quorum, April 2000.
- ◆ Numerous Speaking and Panel Engagements

Awards

- ◆ Community Associations Institute, OCRC, 2006 *Ellen Ellish Award*

Awards (continued)

- ◆ Community Associations Institute, OCRC, 2006 *Presidents Award*
- ◆ California Association of Community Managers, 2001, Vision Award, *Excellence in Service*
- ◆ Community Associations Institute, GRIE, 2000 *Committee Member of the Year*

Professional Responsibilities

As Reserve Fund Specialist for SCT Reserve Consultants, Inc. Mr. Graves:

- ◆ Manages reserve study site inspections and funding analyses
- ◆ Prepares reserve study reports and proposals
- ◆ Markets reserve study services through professional contacts and trade associations' meetings and shows

Professional Experience

Mr. Graves' reserve study experience includes:

- ◆ Numerous Level I, II, and III reserve studies throughout San Diego, Los Angeles, Orange, Riverside, San Bernardino, and Imperial Counties.
- ◆ Familiar with components that go into a reserve study.
- ◆ Able to assist Associations in determining a well-suited funding plan that fits their reserve goals.
- ◆ Utilizes Property Reserve Analysis (PRA) System software to generate:
Component Identification Report
Cash Flow and Percent Funded Report
10-Year Expenditure Report
- ◆ Meet with Association's Board of Directors to review the draft of the reserve study.
- ◆ Consideration of Board's input with respect to incorporating component replacement and funding policies.



Disclosure Statements

SCT Reserve Consultants, Inc. endeavors to provide the most accurate reserve study possible. However, the current replacement costs of the listed components are based on estimates utilizing; local trades, contractor interviews, and national cost databases. Regular maintenance of reserve components is required to realize the full useful life of each component. Changes in fees for labor and materials, acts of God, extraordinary weather conditions, vandalism and unusual wear of the reserve components may have an adverse impact on the useful life and the cost to replace a particular reserve component. SCT Reserve Consultants, Inc. did not identify, nor did it purport to expound on, any possible construction defects on the project. All dollar figures are subject to rounding errors.

The completeness of this reserve study relies heavily on information provided to us by the Association's representative(s). Incomplete or missing information may cause a distortion of the Association's financial condition. The reserve balance presented in this reserve study is based on information provided and was not audited. SCT Reserve Consultants, Inc. assumes that the information provided to us by the Association's representative(s) is both reliable and accurate and for a Level II study (update with-site-visit) and Level III study (update with no-site-visit) the Association is to have considered previously developed component quantities and/or lump sum expenditures as accurate and reliable. Information provided about reserve projects is also understood to be reliable. Any on-site inspection should not be considered a project audit or quality inspection.

In the event we have performed an on-site inspection of the community, the data compiled has been used with financial, physical, quantity, and historical information provided by the Association's representative(s). Our physical inspection would consist primarily of visual inspection, measurement, drawing take-offs, and photographic documentation. No destructive testing methods were used.

SCT Reserve Consultants, Inc. has prepared this reserve study in conformance with the requirements laid out by the California Civil Code (§1365 and §1365.5) and the Community Association Institute (CAI). We have no other current involvement with STONEMARK AT LOS MORROS HOMEOWNERS ASSOCIATION and have no actual or perceived conflicts of interest with STONEMARK AT LOS MORROS HOMEOWNERS ASSOCIATION.

This reserve study is a reflection of the information provided to us by the Association's representative(s) and is assembled for the budgeting and planning purposes of the Board of Directors only. Information provided about reserve projects will be considered reliable. The reserve study is not to be used for the purpose of performing an audit, quality/forensic analyses, or background checks of historical records.



Definition of Terms

100% Funded – from the “Component Identification Report”, see Fully Funded Balance (FFB).

Basis Cost - the estimated unit (of measurement basis) replacement cost.

Cash Flow Method - a method of developing a reserve funding plan where contributions to the reserve fund are designed to offset the variable annual expenditures from the reserve fund. Different reserve funding plans are tested against the anticipated schedule of reserve expenses until the desired funding goal is achieved.

Contingency Fund – typically 3.0% to 5.0% of annual reserve allocation may be established to pay for incidental and miscellaneous reserve expenditures (optional).

Current Replacement Cost (estimated) - the total estimated cost of a component’s replacement or long-term maintenance action at the time of the study. This amount is calculated by multiplying the measurement basis quantity times the basis cost.

Davis-Stirling Common Interest Development Act - the name for the sections of the California Civil Code (1350 through 1376) that are the framework for the operation and management of common interest developments in California.

Fully Funded Balance (FFB) - total accrued depreciation. This number is calculated for each reserve component, then summed together for a total dollar value.

Expressed as $FFB = (Current\ Replacement\ Cost) \times (Estimated\ Used\ Life) / (Estimated\ Full\ Life)$

Full Life (estimated) - the original estimate of a period of time that a component will last before major long-term maintenance or replacement is required.

Funding Goals – there are four basic categories of funding plan goals:

- ⇒ **Baseline Funding** – establishing a reserve-funding goal of keeping the reserve cash balance above zero.
- ⇒ **Full Funding** – setting a reserve-funding goal of attaining and maintaining reserves at or near 100% funded.
- ⇒ **Statutory Funding** – establishing a reserve-funding goal of setting aside the specific minimum amount of reserves required by local statutes.
- ⇒ **Threshold Funding** – establishing a reserve-funding goal of keeping the reserve balance above a specified dollar or percent funded amount.

Future Replacement Cost (estimated) – the current replacement cost multiplied by an inflation factor (compounded annually).

Level I Reserve Study - is considered a full study, it consists of:

- ⇒ **Component Inventory** - quantification and verification of the reserve components.
- ⇒ **Condition Assessment** – the task of evaluating the current condition of the component based on observed or reported conditions.
- ⇒ **Life and Valuation Estimates** – the task of estimating Full Life, Remaining Life and repair and replacement costs for the components.
- ⇒ **Fund Status** – status of the reserve fund as compared to an established benchmark such as percent funding.
- ⇒ **Funding Plan** – an Association’s plan to provide income to the reserve fund to offset anticipated expenditures from that fund.

Level II Reserve Study - is considered an update (on-site) study, it consists of:

- ⇒ **Component Inventory** - verification of the reserve components only, no quantification.
- ⇒ **Condition Assessment** – the task of evaluating the current condition of the component based on observed or reported conditions.
- ⇒ **Life and Valuation Estimates** – the task of estimating Full Life, Remaining Life and repair and replacement costs for the components.
- ⇒ **Fund Status** – status of the reserve fund as compared to an established benchmark such as percent funding.

Definition of Terms (continued)

⇒ **Funding Plan** – an Association’s plan to provide income to the reserve fund to offset anticipated expenditures from that fund.

Level III Reserve Study - is considered a financial update, it consists of:

- ⇒ **Life and Valuation Estimates** – the task of estimating Full Life, Remaining Life and repair and replacement costs for the components.
- ⇒ **Fund Status** – status of the reserve fund as compared to an established benchmark such as percent funding.
- ⇒ **Funding Plan** – an Association’s plan to provide income to the reserve fund to offset anticipated expenditures from that fund.

Measurement Basis - the unit of measurement, i.e.: each, linear feet, square feet, squares (100 sf).

Percent Funded – the ratio, at a particular point of time, of the actual (or projected) Reserve Balance to the Fully Funded Balance, expressed as a percentage.

Remaining Life (estimated) - an educated evaluation of the amount of time before the component will need replacement.

Reserve Allocation - money that is collected and applied to particular components (see Year 2010 Reserve Budget).

Reserve Component - is defined as any major component that needs major maintenance or replacement at a frequency exceeding two years but typically not more than 30 years.

Reserve Fund Balance (estimated) - the estimated amount of money in the reserve account(s) as of the study date, typically calculated by adding the prior year’s current reserve balance, remaining reserve allocations, and interest, and then subtracting any known reserve expenditures through the same prior year.

Reserve Study - is a budget-planning tool that identifies the current status of the reserve fund and offers a stable and equitable funding plan to offset the anticipated future major common area expenditures. It consists of two parts:

- ⇒ **Financial Analysis** - the portion of the reserve study where the current status of the reserves (Fund Status) are measured as cash or percent funded and a recommended reserve contribution rate (Funding Plan) are derived, and the projected reserve income and expense over time is presented.
- ⇒ **Physical Analysis** - the portion of the reserve study where the Component Inventory, Condition Assessment, and Life and Valuation Estimate tasks are performed.

Straight Line Allocation (Annual) – from the “Component Identification Report” is a single year’s 100% funded amount, often referred to as the ideal or recommended funding level.

Weighted Average Life (WAL) - is calculated by multiplying the cost of each component by the number of months until replacement, creating a weighted average life factor. The total of the factors is divided by the total replacement cost, producing the WAL.



2007 California Civil Code (Selected Sections)

(Amendments effective January 1, 2007 are shown in blue and italics)

Chapter 5. Operations

Article 2. Fiscal Matters

§ Section 1365. Financial Documents

Unless the governing documents impose more stringent standards, the association shall prepare and distribute to all of its members the following documents:

- (a) A pro forma operating budget, which shall include all of the following:
 - (1) The estimated revenue and expenses on an accrual basis.
 - (2) A summary of the association's reserves based upon the most recent review or study conducted pursuant to Section 1365.5, based only on assets held in cash or cash equivalents, which shall be printed in boldface type and include all of the following:
 - (A) The current estimated replacement cost, estimated remaining life, and estimated useful life of each major component.
 - (B) As of the end of the fiscal year for which the study is prepared:
 - (i) The current estimate of the amount of cash reserves necessary to repair, replace, restore, or maintain the major components.
 - (ii) The current amount of accumulated cash reserves actually set aside to repair, replace, restore, or maintain major components.
 - (iii) If applicable, the amount of funds received from either a compensatory damage award or settlement to an association from any person or entity for injuries to property, real or personal, arising out of any construction or design defects, and the expenditure or disposition of funds, including the amounts expended for the direct and indirect costs of repair of construction or design defects. These amounts shall be reported at the end of the fiscal year for which the study is prepared as separate line items under cash reserves pursuant to clause (ii). In lieu of complying with the requirements set forth in this clause, an association that is obligated to issue a review of their financial statement pursuant to subdivision (b) may include in the review a statement containing all of the information required by this clause.
 - (C) The percentage that the amount determined for purposes of clause (ii) of subparagraph (B) equals the amount determined for purposes of clause (i) of subparagraph (B).
 - (D) *The current deficiency in reserve funding expressed on a per unit basis. The figure shall be calculated by subtracting the amount determined for purposes of clause (ii) of subparagraph (B) from the amount determined for purposes of clause (i) of subparagraph (B) and then dividing the result by the number of separate interests within the association, except that if assessments vary by the size or type of ownership interest, then the association shall calculate the current deficiency in a manner that reflects the variation.*
 - (3) A statement as to *all* of the following:
 - (A) *Whether the board of directors of the association has determined to defer or not undertake repairs or replacement of any major component with a remaining life of 30 years or less, including a justification for the deferral or decision not to undertake the repairs or replacement.*
 - (B) *Whether the board of directors of the association consistent with the reserve funding plan adopted pursuant to subdivision (e) of section 1365.5, has determined or anticipates that the levy of one or more special assessments will be required to repair, replace, or restore any major component or to provide adequate reserves therefor. If so, the statement shall also set out the estimated amount, commencement date, and duration of the assessment.*
 - (C) The mechanism or mechanisms by which the board of directors will fund reserves to repair or replace major components, including assessments, borrowing, use of other assets, deferral of selected replacement or repairs, or alternative mechanisms.
 - (D) *Whether the association has any outstanding loans with an original term of more than one year, including the payee, interest rate, amount outstanding, annual payment, and when the loan is scheduled to be retired.*
 - (4) A general statement addressing the procedures used for the calculation and establishment of those reserves to defray the future repair, replacement, or additions to those major components that the association is obligated to maintain. The report shall include, but need not be limited to, reserve calculations made using the formula described in paragraph (4) of subdivision (b) of Section 1365.2.5, and may not assume a rate of return on cash reserves in excess of 2 percent above the rediscount rate published by the Federal Reserve Bank of San Francisco at the time the calculation was made. The summary of the association's reserves disclosed pursuant to paragraph (2) shall not be admissible in evidence to show improper financial management of an association, provided that other relevant and competent evidence of the financial condition of the association is not made inadmissible by this provision. Notwithstanding a contrary provision in the governing documents, a copy of the operating budget shall be annually distributed not less than 30 days nor more than 90 days prior to the beginning of the association's fiscal year.
- (b) *Commencing January 1, 2009, a summary of the reserve funding plan adopted by the board of directors of the association, as specified in paragraph (4) of subdivision (e) of section 1365.5. The summary shall include notice to members that the full reserve study plan is made available by request, and the association shall provide the full reserve plan to any member upon request.*
 - (c) A review of the financial statement of the association shall be prepared in accordance with generally accepted accounting principles by a licensee of the California Board of Accountancy for any fiscal year in which the gross income to the association exceeds seventy-five thousand dollars (\$75,000). A copy of the review of the financial statement shall be distributed within 120 days after the close of each fiscal year.
 - (d) Instead of the distribution of the pro forma operating budget required by subdivision (a), the board of directors may elect to distribute a summary of the pro forma operating budget to all of its members with a written notice that the pro forma operating budget is available at the business office of the association or at another suitable location within the boundaries of the development, and that copies will be provided upon request and at the expense of the association. If any member requests that a copy of the pro forma operating budget required by subdivision (a) be mailed to the member, the association shall provide the copy to the member by first-class United States mail at the expense of the association and delivered within five days. The written notice that is distributed to each



2007 California Civil Code

(Amendments effective January 1, 2007 are shown in blue and italics)

(continued)

- of the association members shall be in at least 10-point boldface type on the front page of the summary of the budget.
- (e) A statement describing the association's policies and practices in enforcing lien rights or other legal remedies for default in payment of its assessments against its members shall be annually delivered to the members not less than 30 days nor more than 90 days immediately preceding the beginning of the association's fiscal year.
- (f)
- (1) A summary of the association's property, general liability, earthquake, flood, and fidelity insurance policies, which shall be distributed not less than 30 days nor more than 90 days preceding the beginning of the association's fiscal year, that includes all of the following information about each policy:
 - (A) The name of the insurer.
 - (B) The type of insurance.
 - (C) The policy limits of the insurance.
 - (D) The amount of deductibles, if any.
 - (2) The association shall, as soon as reasonably practicable, notify its members by first-class mail if any of the policies described in paragraph (1) have lapsed, been canceled, and are not immediately renewed, restored, or replaced, or if there is a significant change, such as a reduction in coverage or limits or an increase in the deductible, as to any of those policies. If the association receives any notice of nonrenewal of a policy described in paragraph (1), the association shall immediately notify its members if replacement coverage will not be in effect by the date the existing coverage will lapse.
 - (3) To the extent that any of the information required to be disclosed pursuant to paragraph (1) is specified in the insurance policy declaration page, the association may meet its obligation to disclose that information by making copies of that page and distributing it to all of its members.
 - (4) The summary distributed pursuant to paragraph (1) shall contain, in at least 10-point boldface type, the following statement: "This summary of the association's policies of insurance provides only certain information, as required by subdivision (f) of Section 1365 of the Civil Code, and should not be considered a substitute for the complete policy terms and conditions contained in the actual policies of insurance. Any association member may, upon request and provision of reasonable notice, review the association's insurance policies and, upon request and payment of reasonable duplication charges, obtain copies of those policies. Although the association maintains the policies of insurance specified in this summary, the association's policies of insurance may not cover your property, including personal property or, real property improvements to or around your dwelling, or personal injuries or other losses that occur within or around your dwelling. Even if a loss is covered, you may nevertheless be responsible for paying all or a portion of any deductible that applies. Association members should consult with their individual insurance broker or agent for appropriate additional coverage."

§ Section 1365.2.5. Assessment and Reserve Funding Disclosure Summary *(page of 2 of reserve study if included)*

- (a) The disclosures required by this article *with* regard to an association or a property shall be summarized on the following form:

REVISED FORM: ASSESSMENT AND RESERVE FUNDING DISCLOSURE SUMMARY (pages 5 and 6 of report, if included)

- (b) For the purposes of preparing a summary pursuant to this section:
- (1) "Estimated remaining useful life" means the time reasonably calculated to remain before a major component will require replacement.
 - (2) "Major component" has the meaning used in Section 1365.5. Components with an estimated remaining useful life of more than 30 years may be included in a study as a capital asset or disregarded from the reserve calculation, so long as the decision is revealed in the reserve study report and reported in the Assessment and Reserve Funding Disclosure Summary.
 - (3) The form set out in subdivision (a) shall accompany each pro forma operating budget or summary thereof that is delivered pursuant to this article. The form may be supplemented or modified to clarify the information delivered, so long as the minimum information set out in subdivision (a) is provided.
 - (4) For the purpose of the report and summary, the amount of reserves needed to be accumulated for a component at a given time shall be computed as the current cost of replacement or repair multiplied by the number of years the component has been in service divided by the useful life of the component. This shall not be construed to require the board to fund reserves in accordance with this calculation.

§ Section 1365.5. Fiscal Duties of board of directors; Signature needed to withdraw monies; Use of reserve funds

- (a) Unless the governing documents impose more stringent standards, the board of directors of the association shall do all of the following:
- (1) Review a current reconciliation of the association's operating accounts on at least a quarterly basis.
 - (2) Review a current reconciliation of the association's reserve accounts on at least a quarterly basis.
 - (3) Review, on at least a quarterly basis, the current year's actual reserve revenues and expenses compared to the current year's budget.
 - (4) Review the latest account statements prepared by the financial institutions where the association has its operating and reserve accounts.
 - (5) Review an income and expense statement for the association's operating and reserve accounts on at least a quarterly basis.
- (b) The signatures of at least two persons, who shall be members of the association's board of directors, or one officer who is not a member of the board of directors and a member of the board of directors, shall be required for the withdrawal of moneys from the association's reserve accounts.



2007 California Civil Code

(Amendments effective January 1, 2007 are shown in blue and italics)

(continued)

- (c)
- (1) The board of directors shall not expend funds designated as reserve funds for any purpose other than the repair, restoration, replacement, or maintenance of, or litigation involving the repair, restoration, replacement, or maintenance of, major components *that* the association is obligated to repair, restore, replace, or maintain and for which the reserve fund was established.
 - (2) However, the board may authorize the temporary transfer of moneys from a reserve fund to the association's general operating fund to meet short-term cashflow requirements or other expenses, if the board has provided notice of the intent to consider the transfer in a notice of meeting, which shall be provided as specified in Section 1363.05. The notice shall include the reasons the transfer is needed, some of the options for repayment, and whether a special assessment may be considered. If the board authorizes the transfer, the board shall issue a written finding, recorded in the board's minutes, explaining the reasons that the transfer is needed, and describing when and how the moneys will be repaid to the reserve fund. The transferred funds shall be restored to the reserve fund within one year of the date of the initial transfer, except that the board may, after giving the same notice required for considering a transfer, and, upon making a finding supported by documentation that a temporary delay would be in the best interests of the common interest development, temporarily delay the restoration. The board shall exercise prudent fiscal management in maintaining the integrity of the reserve account, and shall, if necessary, levy a special assessment to recover the full amount of the expended funds within the time limits required by this section. This special assessment is subject to the limitation imposed by Section 1366. The board may, at its discretion, extend the date the payment on the special assessment is due. Any extension shall not prevent the board from pursuing any legal remedy to enforce the collection of an unpaid special assessment.
- (d) When the decision is made to use reserve funds or to temporarily transfer moneys from the reserve fund to pay for litigation, the association shall notify the members of the association of that decision in the next available mailing to all members pursuant to Section 5016 of the Corporations Code, and of the availability of an accounting of those expenses. Unless the governing documents impose more stringent standards, the association shall make an accounting of expenses related to the litigation on at least a quarterly basis. The accounting shall be made available for inspection by members of the association at the association's office.
- (e) At least once every three years, the board of directors shall cause to be conducted a reasonably competent and diligent visual inspection of the accessible areas of the major components *that* the association is obligated to repair, replace, restore, or maintain as part of a study of the reserve account requirements of the common interest development, if the current replacement value of the major components is equal to or greater than one-half of the gross budget of the association *excluding* the association's reserve account for that period. The board shall review this study, or cause it to be reviewed, annually, or cause it to be reviewed, and shall consider and implement necessary adjustments to the board's analysis of the reserve account requirements as a result of that review. The study required by this subdivision shall at a minimum include:
- (1) Identification of the major components *that* the association is obligated to repair, replace, restore, or maintain *that*, as of the date of the study, have a remaining useful life of less than 30 years.
 - (2) Identification of the probable remaining useful life of the components identified in paragraph (1) as of the date of the study.
 - (3) An estimate of the cost of repair, replacement, restoration, or maintenance of the components identified in paragraph (1).
 - (4) An estimate of the total annual contribution necessary to defray the cost to repair, replace, restore, or maintain the components identified in paragraph (1) during and at the end of their useful life, after subtracting total reserve funds as of the date of the study.
 - (5) *A reserve funding plan that indicates how the association plans to fund the contribution identified in paragraph (4) to meet the association's obligation for the repair and replacement of all major components with an expected remaining life of 30 years or less, not including those components that the board has determined will not be replaced or repaired. The plan shall include a schedule of the date and amount of any change in regular or special assessments that would be needed to sufficiently fund the reserve funding plan. The plan shall be adopted by the board of directors at an open meeting before the membership of the association as described in Section 1363.05. If the board of directors determines that an assessment increase is necessary to fund the reserve funding plan, any increase shall be approved in a separate action of the board that is consistent with the procedure described in Section 1366.*
- (f) As used in this section, "reserve accounts" means both of the following:
- (1) Moneys *that* the association's board of directors has identified for use to defray the future repair or replacement of, or additions to, those major components which the association is obligated to maintain.
 - (2) The funds received, and not yet expended or disposed of, from either a compensatory damage award or settlement to an association from any person or entity for injuries to property, real or personal, arising from any construction or design defects. These funds shall be separately itemized from funds described in paragraph (1).
- (g) As used in this section, "reserve account requirements" means the estimated funds *that* the association's board of directors has determined are required to be available at a specified point in time to repair, replace, or restore those major components *that* the association is obligated to maintain.
- (h) This section does not apply to an association that does not have a "common area" as defined in Section 1351.

