

Reserve Analysis Report

Casa Tranquila

4514 Dawson Ave
San Diego, CA 92115

For Fiscal Year End:
December 31, 2009

Level I Study with Site Inspection



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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 dues 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 dues 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 concrete sidewalks. All sidewalks should never have to be replaced, but some sections may experience cracking. In this case an allowance can be created for their partial replacement.

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.

$$= (\text{Total Current Cost} / \text{Normal Useful Life})$$

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

$$= ((\text{Normal Life} - \text{Remaining Life}) * \text{Depreciation This Year})$$

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.
$$(\text{Projected Balance} / \text{Fully Funded Balance})$$

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.

California Civil Code Requirements

Assessment and Reserve Funding Disclosure Summary Explanation

California Civil Code Section 1365 requires a specific reserve disclosure form to be updated and included every year in the annual budgets that are sent to owners. As your reserve provider we have included this form with your reserve study.

Funding Plan

Commencing January 1st 2009, California Civil Code requires associations to adopt a funding plan and summarize it in their annual budget.

Civil Code requires reserve studies to include an estimate of the total annual contribution necessary to defray the cost to repair, replace, restore, or maintain the components identified during and at the end of their useful life. This is included in the attached study.

Civil Code also requires association to specify a funding plan that indicates how the association plans to fund the necessary annual contribution described in the report. If you would like us to include this funding plan in our study please send us a copy and we will add it to the report.

Please Note

We have used the budget numbers that were given to us during the current fiscal year. If the association would like us to use the budget numbers from the upcoming fiscal year in the disclosure summary and the associated calculations please contact us after the new budget for the upcoming year has been finalized.

If regular or special assessments vary you must attach a sheet that summarizes this.

For all calculations on the form and in the report we assume the association will raise its dues 3% per year for the next 30 years. If the association has an alternative plan that you would like us to take into account and/or document in the study please let us know.

What to Include in the Annual Budget

The completed Reserve Funding Disclosure Summary along with Executive Summary, Component Summary, and Theoretical 30 Year Funding Plans from the report should be included with the annual budget.

If you have any questions feel free to give us a call at 858-764-1895.

McCaffery Reserve Consulting

Assessment and Reserve Funding Disclosure Summary

(1) The current regular assessment per ownership interest per month is:

\$ 240.00 per month for the year ending 12/31/09

(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. (As of 4/8/2009)

Date Assessment is Due	Amount per unit	Purpose of Assessment
NA		
Total:		

(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 ___ No X

Note: This calculation assumes the association will raise their reserve contribution 3% per year over the next 30 years.

(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?

Increase the monthly reserve contribution by \$ 107.50 per unit

For more detail see attached theoretical 30 year funding plans.

Note: This calculation assumes the association will raise their reserve contribution 3% per year over the next 30 years.

(5) All major components appropriate for reserve funding are included in the reserve study and are included in it's calculations.

(6) 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 the current fiscal year is:

\$ 28,574

based in whole or in part on the last reserve study or update prepared by McCaffery Reserve Consulting as of 12/31/2009 the projected reserve fund cash balance at the end of the current fiscal year is: \$ 5,000 resulting in the reserves being 17% funded at this date.

(7) Based on the method of calculation in paragraph (4) of subdivision (b) of Section 1365.2.5 of the civil code the projected required amount in reserves, projected reserve fund cash balance and projected percent funded for each of the next 5 years is:

Year	Amt Required	Proj. Balance	% Funded
2010	\$ 31,145	\$ 4,225	14%
2011	\$ 34,847	\$ 4,331	12%
2012	\$ 20,715	\$ (12,231)	-59%
2013	\$ 24,273	\$ (12,231)	-50%
2014	\$ 28,026	\$ (12,231)	-44%

For more detail see attached theoretical 30 year funding plans.

Note: This calculation assumes the association will raise their dues 3% per year over the next 30 years.

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.

(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 1366.5. 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.

The preparer of this form will be indemnified and held harmless against all losses, claims, action, damages, expenses or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement, because of any false, misleading or incomplete information which has been relied upon by others, or which may result from any improper use or reliance on the disclosure.

Executive Summary

Casa Tranquila

This is a Homeowners Association with 4 Condominium Units.

The common area components include: fencing and building exterior.

A Full Study with an on-site inspection was performed on April 3rd, 2009

Number of Units	4
Year Built	
Fiscal Year End	December 31, 2009

After Tax Interest Rate	2.5%
Annual Inflation Rate	3.0%
Annual Dues Increase	3.0%

Reserve Fund Balance December 31, 2009

Fully Funded Reserve Balance	\$ 28,574
Projected Balance	\$ 5,000
Under Funded	\$ 23,574
Percent Funded	17.5%

	Annually	Monthly	Per Unit Monthly
Current Budgeted Reserve Assessment	\$ -	\$ -	\$ -
Depreciation of Components in 2008	\$ 2,609	\$ 217	\$ 54.35
Threshold Reserve Contribution for 2009	\$ 5,160	\$ 430	\$ 107.50
Recommended Reserve Contribution for 2009	\$ 5,880	\$ 490	\$ 122.50

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Component Summary
Casa Tranquila

Category	Approx. Quantity	Unit of Measure	Useful Life	Remaining Life	Unit Cost	Total Cost	Depreciation This Year	Fully Funded Balance	Cost Source
Roofing									
Tile Underlayment & Repairs	390	SF	35	5	\$ 6.50	\$ 2,535	\$ 72	\$ 2,173	1
Composite Shingles	3075	SF	25	2	\$ 3.50	\$ 10,763	\$ 431	\$ 9,902	1
Gutters & Downspouts	215	LF	25	5	\$ 7.00	\$ 1,505	\$ 60	\$ 1,204	1
						\$ 14,803	\$ 563	\$ 13,278	
Painting									
Stucco	1	Allowance	12	5	\$ 5,000	\$ 5,000	\$ 417	\$ 2,917	1
Wood Fence Paint	150	LF	5	0	\$ 6.00	\$ 900	\$ 180	\$ 900	1
Block Wall Paint/Repair	1	Allowance	8	2	\$ 1,200	\$ 1,200	\$ 150	\$ 900	1
						\$ 7,100	\$ 747	\$ 4,717	
Fencing/Rails									
Wood Fencing	150	LF	20	2	\$ 25.00	\$ 3,750	\$ 188	\$ 3,375	1
Pedestrian Gates	2	Each	25	10	\$ 600	\$ 1,200	\$ 48	\$ 720	1
						\$ 4,950	\$ 236	\$ 4,095	
Landscaping									
Landscape Upgrade	1	Allowance	10	5	\$ 2,500	\$ 2,500	\$ 250	\$ 1,250	1
						\$ 2,500	\$ 250	\$ 1,250	
Miscellaneous									
Mailboxes	4	Each	25	15	\$ 100	\$ 400	\$ 16	\$ 160	1
Termite Treatment	1	Allowance	10	5	\$ 5,000	\$ 5,000	\$ 500	\$ 2,500	1
Entry Intercom	1	Allowance	15	8	\$ 2,600	\$ 2,600	\$ 173	\$ 1,213	1
						\$ 8,000	\$ 689	\$ 3,873	
Contingency									
5%							\$ 124	\$ 1,381	
TOTALS						\$ 37,353	\$ 2,609	\$ 28,574	

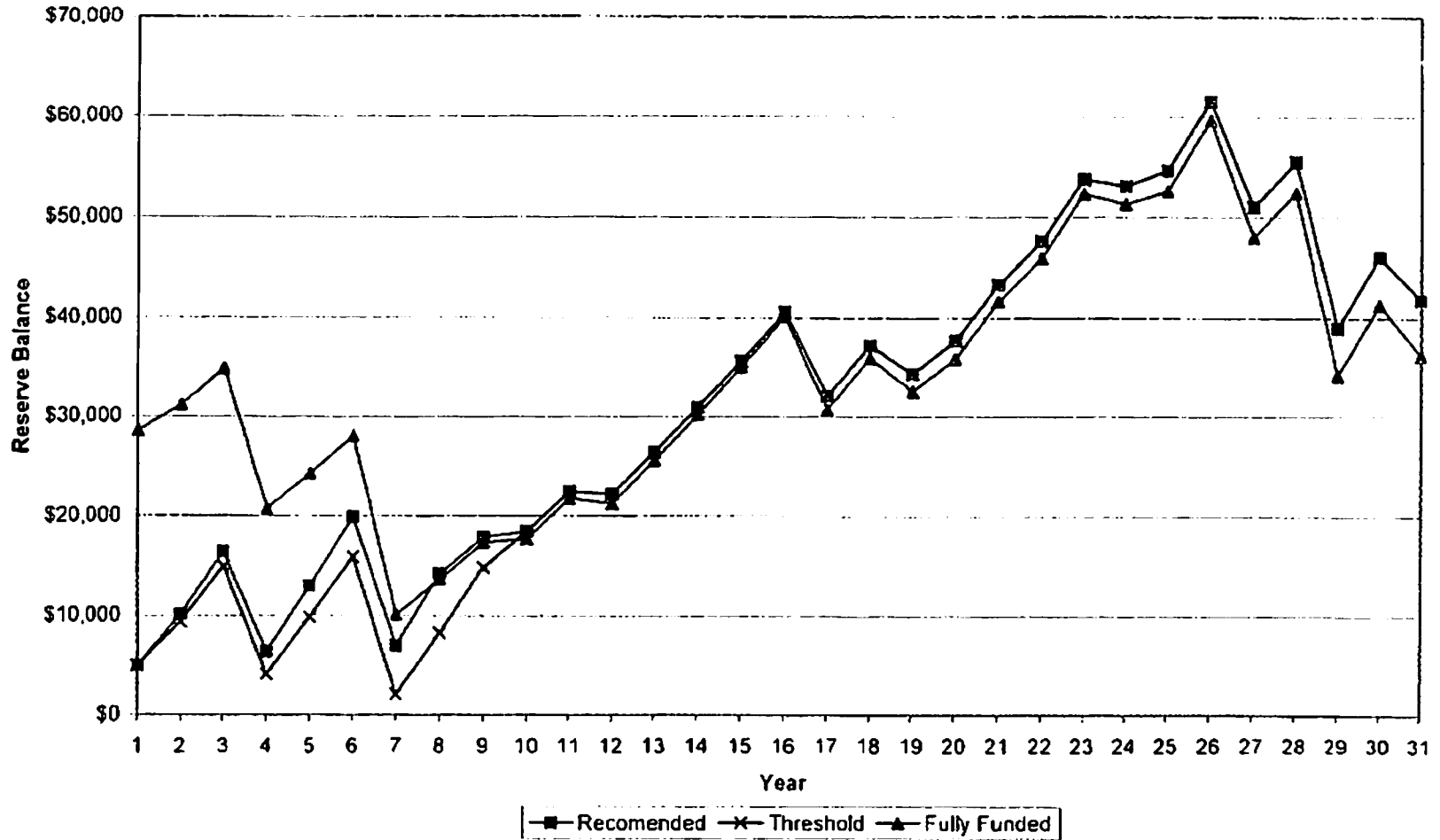
Notes: Any other items not listed are included in operating budget.

Theoretical 30 Year Funding Plans
Casa Tranquila

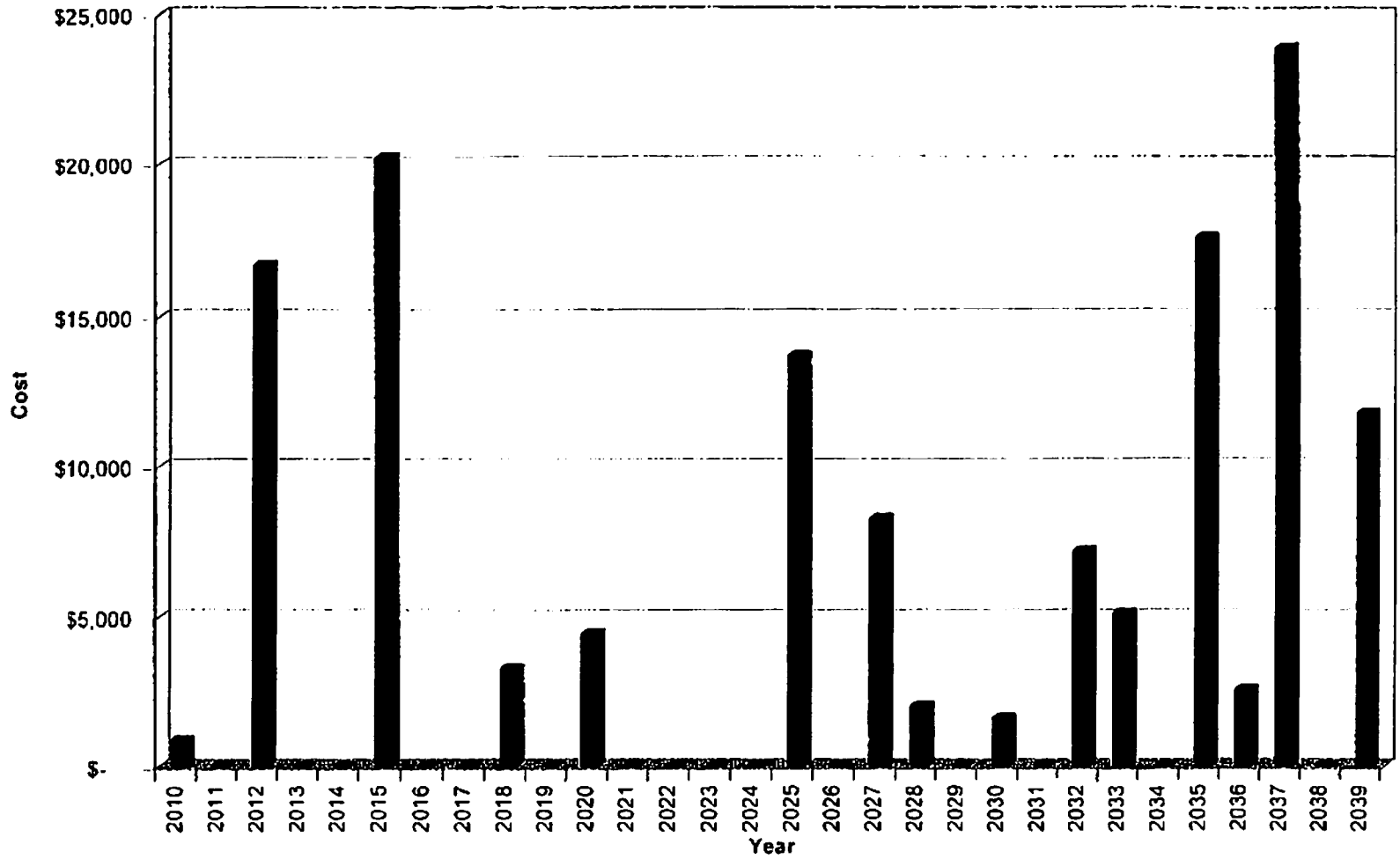
Year End	Annual Expenses	Fully Funded Balance	Current Funding Plan			Recommended Funding Plan			Threshold Funding Plan		
			Contribution	Balance	% Funded	Contribution	Balance	% Funded	Contribution	Balance	% Funded
2009	\$ -	\$ 28,574	\$ -	\$ 5,000	17%	\$ -	\$ 5,000	17%	\$ -	\$ 5,000	17%
2010	\$ 900	\$ 31,145	\$ -	\$ 4,225	14%	\$ 5,880	\$ 10,105	32%	\$ 5,160	\$ 9,385	30%
2011	\$ -	\$ 34,847	\$ -	\$ 4,331	12%	\$ 6,056	\$ 16,414	47%	\$ 5,315	\$ 14,934	43%
2012	\$ 16,669	\$ 20,715	\$ -	\$ (12,231)	-59%	\$ 6,238	\$ 6,393	31%	\$ 5,474	\$ 4,113	20%
2013	\$ -	\$ 24,273	\$ -	\$ (12,231)	-50%	\$ 6,425	\$ 12,978	53%	\$ 5,638	\$ 9,854	41%
2014	\$ -	\$ 28,026	\$ -	\$ (12,231)	-44%	\$ 6,618	\$ 19,921	71%	\$ 5,808	\$ 15,908	57%
2015	\$ 20,218	\$ 10,116	\$ -	\$ (32,448)	-321%	\$ 6,817	\$ 7,017	69%	\$ 5,982	\$ 2,070	20%
2016	\$ -	\$ 13,628	\$ -	\$ (32,448)	-238%	\$ 7,021	\$ 14,214	104%	\$ 6,161	\$ 8,283	61%
2017	\$ -	\$ 17,342	\$ -	\$ (32,448)	-187%	\$ 3,305	\$ 17,874	103%	\$ 6,346	\$ 14,836	86%
2018	\$ 3,294	\$ 17,704	\$ -	\$ (35,742)	-202%	\$ 3,404	\$ 18,431	104%	\$ 6,537	\$ 18,450	104%
2019	\$ -	\$ 21,741	\$ -	\$ (35,742)	-164%	\$ 3,506	\$ 22,398	103%	\$ 3,506	\$ 22,417	103%
2020	\$ 4,435	\$ 21,208	\$ -	\$ (40,177)	-189%	\$ 3,611	\$ 22,134	104%	\$ 3,611	\$ 22,154	104%
2021	\$ -	\$ 25,564	\$ -	\$ (40,177)	-157%	\$ 3,720	\$ 26,407	103%	\$ 3,720	\$ 26,427	103%
2022	\$ -	\$ 30,162	\$ -	\$ (40,177)	-133%	\$ 3,831	\$ 30,899	102%	\$ 3,831	\$ 30,919	103%
2023	\$ -	\$ 35,013	\$ -	\$ (40,177)	-115%	\$ 3,946	\$ 35,617	102%	\$ 3,946	\$ 35,638	102%
2024	\$ -	\$ 40,128	\$ -	\$ (40,177)	-100%	\$ 4,065	\$ 40,572	101%	\$ 4,065	\$ 40,594	101%
2025	\$ 13,710	\$ 30,691	\$ -	\$ (53,887)	-176%	\$ 4,186	\$ 32,063	104%	\$ 4,186	\$ 32,085	105%
2026	\$ -	\$ 35,924	\$ -	\$ (53,887)	-150%	\$ 4,312	\$ 37,177	103%	\$ 4,312	\$ 37,199	104%
2027	\$ 8,264	\$ 32,505	\$ -	\$ (62,151)	-191%	\$ 4,441	\$ 34,283	105%	\$ 4,441	\$ 34,306	106%
2028	\$ 2,043	\$ 35,846	\$ -	\$ (64,194)	-179%	\$ 4,575	\$ 37,672	105%	\$ 4,575	\$ 37,696	105%
2029	\$ -	\$ 41,633	\$ -	\$ (64,194)	-154%	\$ 4,712	\$ 43,326	104%	\$ 4,712	\$ 43,350	104%
2030	\$ 1,626	\$ 45,977	\$ -	\$ (65,820)	-143%	\$ 4,853	\$ 47,637	104%	\$ 4,853	\$ 47,662	104%
2031	\$ -	\$ 52,355	\$ -	\$ (65,820)	-126%	\$ 4,999	\$ 53,826	103%	\$ 4,999	\$ 53,852	103%
2032	\$ 7,185	\$ 51,304	\$ -	\$ (73,005)	-142%	\$ 5,149	\$ 53,135	104%	\$ 5,149	\$ 53,162	104%
2033	\$ 5,131	\$ 52,597	\$ -	\$ (78,136)	-149%	\$ 5,303	\$ 54,636	104%	\$ 5,303	\$ 54,663	104%
2034	\$ -	\$ 59,637	\$ -	\$ (78,136)	-131%	\$ 5,462	\$ 61,464	103%	\$ 5,462	\$ 61,492	103%
2035	\$ 17,588	\$ 48,031	\$ -	\$ (95,724)	-199%	\$ 5,626	\$ 51,039	106%	\$ 5,626	\$ 51,067	106%
2036	\$ 2,588	\$ 52,468	\$ -	\$ (98,312)	-187%	\$ 5,795	\$ 55,522	106%	\$ 5,795	\$ 55,551	106%
2037	\$ 23,907	\$ 34,156	\$ -	\$ (122,219)	-358%	\$ 5,969	\$ 38,973	114%	\$ 5,969	\$ 39,002	114%
2038	\$ -	\$ 41,329	\$ -	\$ (122,219)	-296%	\$ 6,148	\$ 46,095	112%	\$ 6,148	\$ 46,125	112%
2039	\$ 11,783	\$ 36,158	\$ -	\$ (134,001)	-371%	\$ 6,332	\$ 41,797	116%	\$ 6,332	\$ 41,828	116%

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

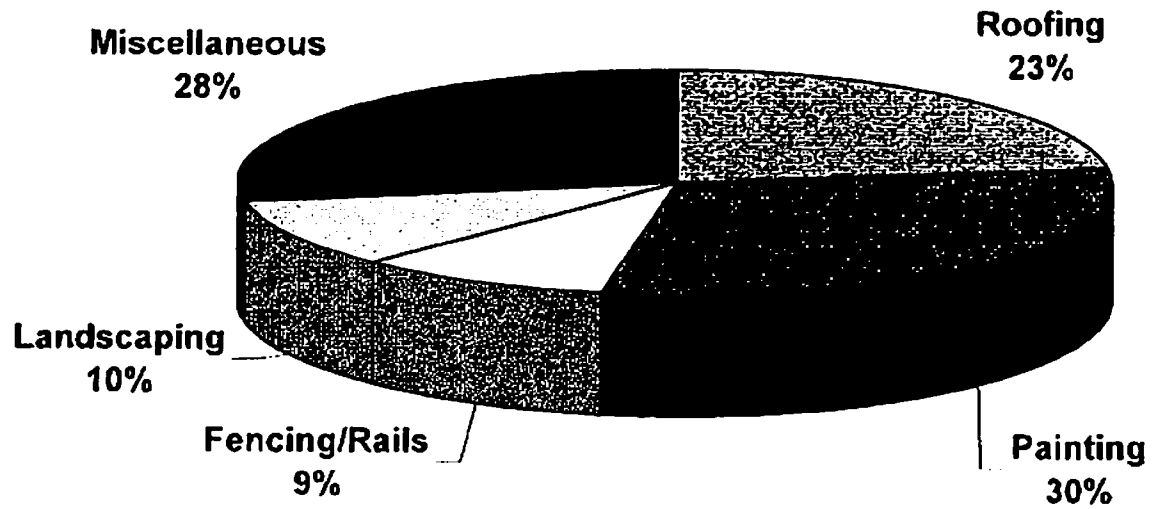


Projected Annual Expenditures



McCallery Reserve Consulting

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.



Let no one ever come to us without leaving better and happier

To: **Jen Villegas** From: **Paige Sturgeon, Mortgage Planner**

Fax: **619-296-4640** Pages: **16**

Phone: Date: **4-14-09**

Re: **Casa Tranquila HOA Reserve Study**
Comments:

Mailing Address
Granite Mortgage, Inc.
2614 Navajo Road
El Cajon, California 92020

Direct (619) 718-9909 Fax (619) 718-9998
paige@granitemortgage.net