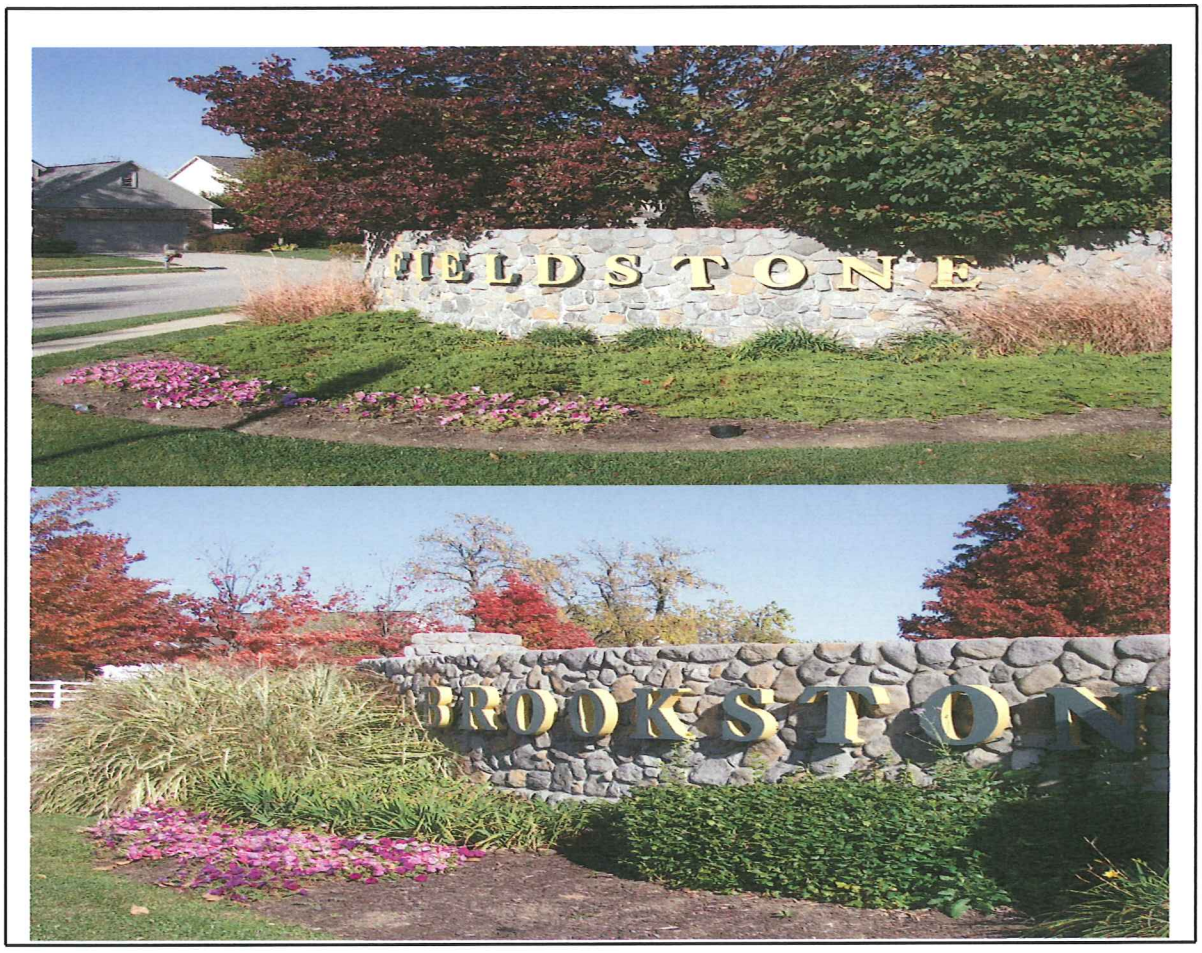
Reserve Study Funding Plan

Twin Creeks Homeowners' Association
Number of Units: 226

January 24th 2009



Prepared By

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Twin Creeks Homeowners' Association, Inc.
Reserve Study
January 24th 2009

Executive Summary

Twin Creeks Homeowners' Association, Inc. has commissioned RSI Consultants to perform a comprehensive capital replacement reserve study of the Association's common property. The goal of a Reserve Study is to help ensure that a community is planning sufficiently for long-term, periodic capital expenditure requirements. By anticipating capital expenditures over an extended period of time through a physical analysis and funding schedule, the Association is better equipped to meet financial requirements without increasing the annual/monthly dues, borrowing funds or levying special assessments.

Twin Creeks Homeowners' Association Inc. is a not-for-profit association incorporated in the State of Indiana, and which like many associations conducts its business within a budget. There are typically two general components to this budget, the operating fund and the reserve fund. The operating fund budget includes day-to-day expenses that are incurred on an annual basis. These would include management fees, maintenance fees, insurance, utilities, etc. The reserve fund budget is primarily made up of capital replacement expenses such as asphalt, roofing, fencing, erosion control, mechanical equipment, etc, that DO NOT normally occur on an annual basis.

The Reserve Study is broken down into two different parts, the physical analysis and financial analysis. The physical analysis is information regarding the physical status and replacement cost of the Association's major components that the Association is responsible to maintain. It is important to understand that while the component inventory will remain relatively consistent from year to year, the condition assessment and useful life estimates will most likely change over the years. The component inventory is located in the *component inventory* section of the study. The *financial schedule* section is the evaluation of the Association's reserve balance, income, and expenses. The analysis is made up of findings of the Association's current reserve funding status and a recommendation for appropriate funding. Unless requested by the Association, RSI Consultants will utilize a *20 twenty year* cash flow method model for determining the Association's future reserve allocation. The financial analysis is located in the *financial schedule* section of the study.

SCOPE OF WORK

The tasks performed by RSI Consultants included the following:

- Identifying common property components and assessing their condition,
- Determining the estimated remaining useful life of each component,
- Estimating the replacement cost of each component in present day dollars,
- Working with the Association's Board and property manager in prioritizing the timing of component replacements, and
- Preparing the reserve study schedules including common property component inventory worksheets, projected reserve fund expenditure schedule, and related cash flow summary report.

We began the study by working with your property manager in reviewing common property component data including: the date units were constructed, contractor estimates for repairs and replacements previously submitted to the Board, and vendor invoices for work performed in previous years. Since communities are distinctive and unique unto themselves, a community's previous quotes and invoices can aid in more accurately projecting the property's component replacement costs. Subsequent to this review, we performed a physical inventory of the Association's common property. Components were identified, measured and inspected for wear and tear.

Once we have completed the component inventory, we then determined each component useful life (UL). Useful life is described as an estimated amount of time that a component can be expected to function or operate correctly before being replaced. The time of UL is often determined by industry, federal and/or international standards and observation tables. After determining the component's UL we then estimated the component's remaining useful life (RUL). Remaining life is determined by establishing a component's installation or creation date and subtracting it from the UL. RSI determined a component installation or start date based on information acquired through our profile sheet, Association documentation, invoices, and/or construction documents. Otherwise, we assessed and estimated the component's RUL based on its current physical condition and compared that age to standard useful life tables.

After determining the component's condition, UL and RUL we estimate the annual funding cost requirements. RSI compiled the cost data required to determine the estimated replacement cost in present day dollars for each component. For those components for which no previous estimates were received, estimating software, and engineering construction guides were used to obtain an average cost per the unit of measure for each component. After determining the component current cost we factored in the assumed inflation rate of three point two percent (3.2%) compounded annually for the life of the study. From this process we were able to develop an accurate and conservative estimate of replacement costs.

We then worked with Association Board members to develop an estimated expenditure schedule for future replacements. Future estimated expenditures were compared to the reserve funding requirements and projected reserve fund contributions to determine whether current and future reserve funds would be adequate to cover future expenditures.

PROPERTY PROFILE: *Twin Creeks Homeowners' Association Inc.*

Number of Homes:	226
Number of Stories:	Two story
Unit Style:	Single family contemporary homes
Percent Occupied:	00%
Year Built:	Approximately 1997-1999
Community Age:	11-9 years
Type of Development:	Homeowners' Association (HOA)
Business Status:	Not-for-Profit
Developer/ Builder:	N/A
Structure:	Conventional stick-framed exterior bearing walls on concrete foundations with either slabs on grade, crawl spaces, or basements with pitched roofs of pre-manufactured wood trusses and wood sheathing.
Exterior:	Painted wood siding with brick veneer.
Roof:	Asphalt/fiberglass shingles and aluminum gutter and downspouts.
Plumbing:	Copper pipe and PVC where visible.
HVAC:	Resident-owned and maintained electric cooling and gas heat with fan forced air furnaces and remote pad-mounted condensing units.
Electric:	120/240-volt, single-phase, three wire service to individual resident circuit panels from underground distribution via pad-mounted electrical transformers.
Parking:	Two-car garage at each unit.

Streets:	Asphalt base and top coat with concrete gutter curbs. The streets are dedicated to the City of Indianapolis. The Community employees a service for street snow removal.
Community Amenities:	Facilities and areas available for community use and enjoyment are, playground, landscaped grounds, (4) lakes, basketball court, nature trails, and perimeter fencing
Reserve Study Level of Service:	Original study was conduct in 1998. A full new study as be conducted in September 2008
Inspected by:	Glenn Comer in 1998 and Mike Davidson in 2008
Reserve Study Update:	Should be performed every 2 to 4 years.
Management Company:	Currently the Community is self managed with all responsibilities falling to the active Board of Directors.

2008- Board of Directors

President:	**Brady Krueger**	**Treasurer:**	**Russ Kushingian**
Vice President:	**Wyatt Smith**	**Secretary:**	**Ed Parada**
Vice President:	**Charles Young**		

Association's Document information:

The following is a list of common property components required by *Twin Creeks Homeowners' Association Inc.* governing documents to maintain:

- Nature pathways,
- Wood bridges common areas,
- Entrance monument stone walls,
- Entrance vinyl rail fence
- Perimeter fencing,
- Basketball court
- Plumbing and electrical in common areas,
- Irrigations
- Landscaping,
- Lakes,
- Playground, and
- Miscellaneous components such as information signage.

Members of the Association are required to contribute to the Association's operating fund and the reserve fund which cover capital repairs and replacements of major components.

ASSUMPTIONS AND DISCLOSURE

The following assumptions were used in completing this reserve study for the Association. The assumptions were based on industry standards and codes, as well as directives from the Associations' property manager and Board of Directors.

1. The annual investment return on the general reserve balances is assumed to be four-percent (4%).
2. RSI will make a noninvasive on site inspection of the property. We do not comment on or give an opinion on the structural integrity of common property components or of its conformity to specific governmental code requirements or any latent or hidden defects that were not readily apparent during the inspection.
3. During the site inspection RSI use a "full inspection" method in order to collect building measures as well as determine the condition of the components and their remaining life. A full inspection is the examination and inspection of all buildings and their components in order to obtain an accurate state of condition and their remaining life. Reasons that may or may not have added to the decision to use the full inspection method were: age of the Association, deferred maintenance, varying states of repairs/replacement, warranty concerns, material recall, and Developer turnover.
4. This report should not be construed as an engineering analysis or a substitute for professional engineering services.
5. Our report and information contained herein is not to be construed as legal advice.
6. Our estimates of cost reflect the amount required to repair, replace or modify the property using the most current technology and construction material at current local market prices for material, labor and manufactured equipment, contractor's overhead, profit and fees, but without provisions for overtime, bonuses for labor, or premiums for material or equipment. We included removal and disposal costs of replacement where applicable.
7. The estimated annual inflation rate used in the study is four point six percent (4.6%).
8. The income tax rate on non-assessment income will be *zero (0).* Under the Internal Revenue Service's (IRS) regulations for this type of "Not-for-Profit" corporation the collection of the Homeowners' assessment meant to be used for the maintenance and the preservation of the property are not subject to income taxes. However, it should be noted that there are items

subject to income tax and there are but not limited to rental/service fees or personal property held by the Association.

9. Estimated expenditures reflected in the reserve plans are based upon the assumption that expenditures will be incurred in the year the component's remaining useful life reaches **zero (0) years.**
10. An inventory component's year of installation or construction is assumed to be the year the component was originally constructed or renovated. However, a component's year may reflect the beginning of a cycle, such as with painting, or may be adjusted based upon our professional observation.
11. As described in the Association's By-Laws the Board of Directors may only increase the annual contribution by ten percent (10%) without the approval of a majority of the Owners.
12. Currently the Association holds its annual Homeowner's meeting in June of every year. This date is six months into the Association's fiscal budget year, which does not allow the Board the ability to call for an owners vote which may be required to increase contributions above ten percent. It is recommend by RSI and the Association attorney that the annual meeting be move to fourth quarter of each year.
13. Currently the asphalt basketball court is in a state on disrepair or deferred maintenance. RSI recommended that the amenity be restore to a usable condition. However, the Board of Directors position is to have the amenity removed due to security issues. The basketball court was inviting outside traffic to the community. RSI has added a one-time demolition cost for the removal the amenity.
14. The **sub-group** codes used in the **property inventory** section reflect the condition of the common property components as follows:

    10 - *Excellent or New*: Component or system is in "as new" condition, requiring no rehabilitation and should perform in accordance with expected performance.

    20 - *Good Condition*: Component or system is sound and performing its function, although it may show signs of normal wear and tear. Some minor rehabilitation work may be required.

    30 - *Fair Condition*: Component or system falls into one or more of the following categories: a) Evidence of previous repairs not in compliance with commonly accepted practice, b) Workmanship not in compliance with commonly accepted standards, c) Component or system is obsolete, d) Component or system approaching end of expected performance.

Repairs or replacement is required to prevent further deterioration or to prolong expected life.

40 - *Poor Condition or Replacement:* Component or system has either failed or cannot be relied upon to continue performing its original function as a result of having exceeded its expected performance, excessive deferred maintenance, or state of disrepairs. Present condition could contribute to or cause the deterioration of other adjoining elements or systems. Repair or replacement is required.

50 - *Adequate:* A component or system is of capacity that is defined as enough for what is required, sufficient, suitable, and/or conforms to standard construction practices.

This rating condition only pertains to the existing component evaluated at the time of inspection. All future repairs and installation will be noted as *Good Condition.*

FINDINGS AND RECOMMENDATION

PRIORITY FINDINGS:

It appears that average to above average quality construction materials were used during development and renovations. However, based upon our observations, there are some material deficiencies that should be addressed within the first year or as soon as financially possible. Those items are as follows:

- *Basketball Court – Demolition*
- *Entranceway – Repair and Maintenance,*
- *Playground – Equipment Repairs, and*
- *Landscape – Recreational Repairs.*

There are, of course, other anticipated capital expenditures to be expected over the next twenty years. Those component items are outlined in the Annual Expenditures section of this study.

RESERVE FUNDING ANALYSIS:

We projected the starting reserve fund balance by taking the most current balance, adding expected reserve contributions planned for the remainder of the year, and subtracting the cost of any pending

projects scheduled for the remainder of the year. We compared this number to the ideal reserve balance* and arrived at the percent funded level. Measures of strength are as follows:

**The ideal balance is a benchmark against which the cash flow or percentage calculations can be compared.*
The formula: Ideal Balance= (Current Age/Useful Life) x Current Cost

0%-30% Funded - Is considered to be a "weak' financial position. Associations that fall into this category are subject to special assessments and deferred maintenance, which could lead to lower property values. If the Association is in this position, actions should be taken to improve the financial strength of the reserve fund.

31%-69% Funded – The majority of Associations are considered to be in this "fair and reasonable" financial position. While there is room for additional financial strength and stability, the likelihood of special assessments and deferred maintenance is diminished. Effort should be taken to continue strengthening the financial position of the reserve fund.

70%-99% Funded – This indicates financial strength of a reserve fund and every attempt to maintain this level should be a goal of the Association.

100% Funded – This is the ideal amount of reserve funding. This means that the Association has the exact amount of funds in the reserve account that should be needed at any given time.

RESERVE STUDY UPDATE & ADJUSTMENTS

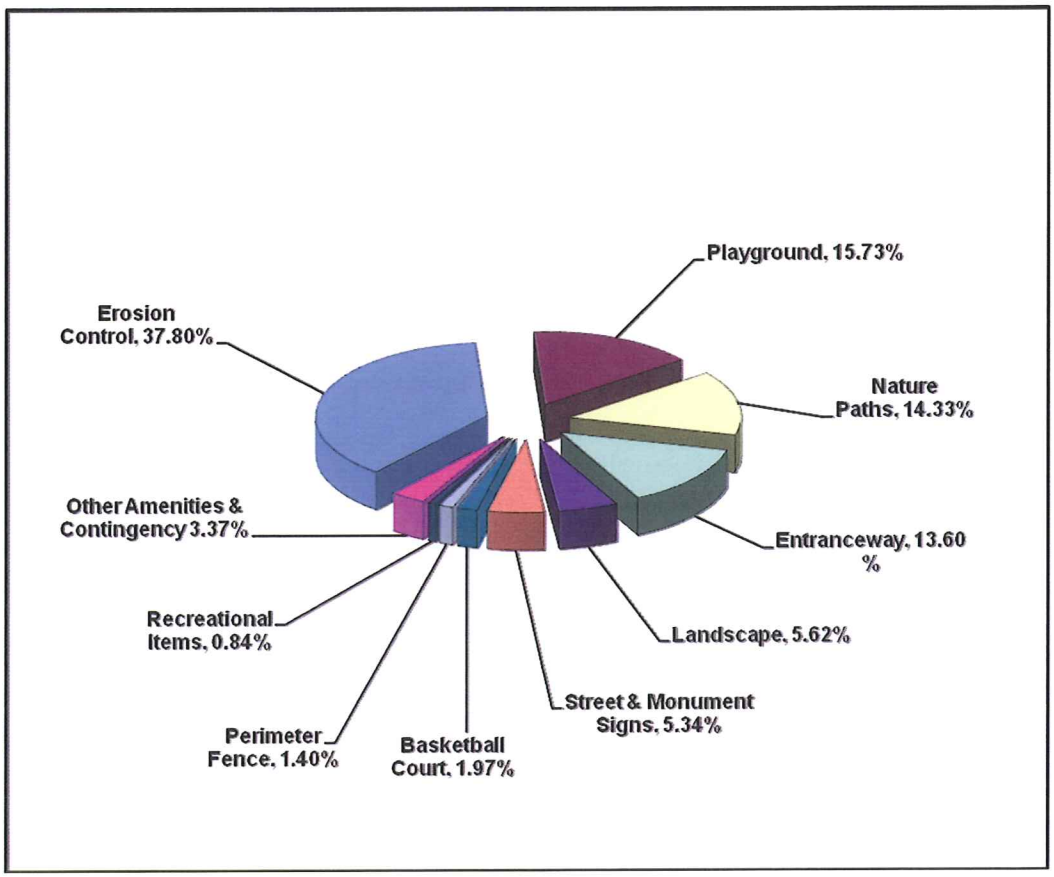
This study is a revision based on information and findings of the original study conducted in 1998. There are several reasons a study should be updated over the course of several years. There are common reasons for revision of a study such as economic changes in replacement material, cost of labor, weather conditions, additions or removal of Association components. Listed below are the items that have been revised.

- Re-assessment of all components useful, remain life and costs,
- Re-assess interest & inflation rates and
- The demolition and removal of the asphalt based basketball court.

INVENTORY SUMMARY:

Based upon our analysis, the following table provides a basic summation of the Association components and percentage breakdown. The table's expenses demonstrate replacement and repairs in current day dollars. Further details and explanations regarding the Association's component inventory are found in the *component inventory* section of the study.

Components	Percentage
Erosion Control	37.80%
Playground	15.73%
Nature Paths	14.33%
Entranceway	13.60%
Landscape	5.62%
Street & Monument Signs	5.34%
Basketball Court	1.97%
Perimeter Fence	1.40%
Recreational Items	0.84%
Other Amenities & Contingency	3.37%
	100.00%



RECOMMENDATIONS:

Upon completion of the study, it is our recommendation that the Board of Directors of *Twin Creeks Homeowners' Association Inc.* review the enclosed funding plan schedule presented and adjusts ongoing reserve fund contributions as outlined in the *financial schedule* section.

Based upon our reserve study calculations, we recommend increasing the Association's annual contributions to the reserve fund to **$25,000** effective with the 2008 business year. Currently the Association is not annually funding the reserve fund. This reflects a **49.25%** increase in the Association's annual funding, translating to a **$110.62** annually increase per home. If the reserve contribution should drop below recommend rate, then the reserve fund could possibly fall into a situation where special assessments, deferred maintenance, and lower property values are possible at some point in the future. Our calculations are as follows:

Current Year:

Projected reserve fund opening balance as of January 2009	**$66,542**
2009 Annual Contribution	**$25,000**
2009 Earned Interest	**$2,322**
2009 Expenditures	**$21,000**
Projected reserve balance as of December 31, 2009	**$72,864**
Percentage funded as of December 31, 2009	**64%**
Recommended Reserve Monthly Contribution (association total)	**$2,083.33**
Recommended Reserve Monthly Contribution (per unit)	**$9.22**
Recommended Reserve Annual Contribution (per unit)	**$ 110.62**

Complete Life of Reserve Funding Schedule:

Minimum Percentage Funding	**33%**
Maximum Percentage Funding	**91%**
Average Annual Reserve Balance	**$93,245**
Minimum Reserve Balance Funding and Year	**$33,076 / 2026**
Maximum Reserve Balance Funding and Year	**$ 133,159 / 2018**

Association's Budget and Contribution Analysis:

Reserve Study Recommend Funding	**$25,000**
Current Annual Reserve Funding	**$0,000**
Difference in Reserve Study and Current Funding	**$25,000**
Percentage Funding Increase for the Reserve Fund	**NA**

Association Member Result:

Currently Monthly	**$18.72**
Recommend Monthly	**$27.94**
Current Annual	**$224.60**
Recommend Annual	**$335.22**
Total Annual Increase per Unit	**$ 110.62**

ADVANTAGES AND REQUIREMENTS

The following is a list of reasons the Association should commission a Reserve Study:

- Certified Public Accounting (CPA) Reporting Requirement.
- State Code requirement (currently not applicable in Indiana).
- Mortgage requirements for many lenders.
- Association requirements (CC&R Documents).
- Future planning for capital projects and deferred maintenance.
- Useful tool for budgeting and controlling costs.
- Help to identify and report cost variances to members.
- Proper care and maintenance of Association assets.
- Can help to avoid any unnecessary special assessments.
- Improve the appearance, property values & curb appeal.
- Planning, controlling and organizing Association goals and assets.
- Provides financial stability.