

Precision 20/20
Full Reserve Study
for
Lake McQueeney Las Brisas
Homeowners Association
Seguin, Texas
May 11, 2010





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June 8, 2010

**Lake McQueeney Las Brisas Homeowners Association
Seguin, Texas**

EXECUTIVE SUMMARY

At the direction of the Board that recognizes the need for proper reserve planning, we have conducted a *Precision 20/20 Full Reserve Study* of Lake McQueeney Las Brisas Homeowners Association (Las Brisas) located in Seguin, Texas and submit our findings in this report. The effective date of this study is the date of our visual, noninvasive inspection, May 11, 2010. This Reserve Study is a budget planning tool that identifies the current status of the reserve fund and a stable and equitable Reserve Funding Plan to offset the anticipated future major common area expenditures.

This study is in compliance with and exceeds the standards set forth by Community Associations Institute (CAI) and the Association of Professional Reserve Analysts (APRA) fulfilling the requirements of a “Full Reserve Study.” For brevity, we use the term Reserve Study herein. A Reserve Study comprises two parts:

Physical Analysis

- Component Inventory
- Condition Assessment
- Estimated Useful Life, Remaining Useful Life and Replacement Cost

Financial Analysis

- Fund Status
- Funding Plan

Exhibit B presents the numerical data of the Physical and Financial Analyses.

Lake McQueeney Las Brisas Homeowners Association is a planned unit development which is responsible for the common elements shared by 216 single family homes. The Association was built from 1987 to 2002. The development contains asphalt streets and a marina. We identify 21 major common elements that are likely to require capital repair or replacement during the next 30 years.

The cash status of the reserve fund, as of April 30, 2010, as projected by Management, is zero dollars (\$0). If the Association were to continue to fund reserves at its 2010 budgeted amount of \$37,800, the reserve fund would incur a potential shortage in 2011.

The Funding Goal of this Reserve Study is to keep the reserve balance above an adequate, not excessive threshold when reserves are needed the most due to one or more years of significant expenditures. Our recommended Funding Plan recognizes these threshold or critical points in 2015 and 2024.

Las Brisas can fund capital repairs and replacements in any combination of the following:

- 1) Increases in the operating budget during years when the shortages occur
- 2) Loans using borrowed capital for major replacement projects
- 3) Level monthly reserve assessments annually adjusted upward for inflation to increase reserves to fund the expected major future expenditures
- 4) Special assessments

We do not advocate special assessments or loans unless near term circumstances dictate otherwise. Although loans provide a gradual method of funding a replacement, the costs are higher than if the Association were to accumulate reserves ahead of the actual replacement.

Interest earnings on reserves also accumulate in this process of saving or reserving for future replacements, thereby defraying the amount of gradual reserve collections. We advocate the third method of *Level Monthly Reserve Assessments* with relatively minor annual adjustments. The method ensures that homeowners pay their “fair share” of the weathering and aging of the commonly owned property each year. Level reserve assessments preserve the property and enhance the resale value of the homes.

This Reserve Study applies the Cash Flow Method to compute the Reserve Funding Plan. The Reserve Funding Plan determines adequate, not excessive, Reserve Contributions through a 30-year Cash Flow Analysis that incorporates the current reserve funds, future interest earned, and projected Reserve Expenditures.

The Reserve Expenditures reflect current and future *local* costs of replacement, projected earned interest, the average annual fund balances and anticipated inflation. Sources for *local* costs of replacement include our proprietary database, historical costs and published sources, i.e., R.S. Means, Incorporated.

We identified the anticipated Reserve Expenditures for Reserve Components during the next 30 years as either near term or long term. *Near term* expenditures relate to capital needs from now through 2015, the next five years beyond this current fiscal year. These *near term* expenditures comprise \$717,487, or about sixteen percent (15.9%), of the next 30 years of **Exhibit B Reserve Expenditures**. Expenditures within the next five years are more important when compared with the future needs of Las Brisas and tend to govern the amounts of

recommended Reserve Contributions. The current Reserve Expenditures relate primarily to the partial replacements of the lake bulkhead.

The Association budgeted \$37,800 for Reserve Contributions in 2010. We recommend that the Association adopt a reserve budget of \$103,000 in 2011. Afterwards, the Association should budget gradual annual increases in reserve funding, that in part consider the effects of inflation through 2024. By 2025, the Association should have established enough in reserves to cover their near term expenditures. Therefore, the Association may anticipate a *decrease* in the annual Reserve Contribution to \$130,500. Beginning in 2026, the Association may again anticipate less significant adjustments in reserve funding, that in part consider the effects of inflation through 2040, the limit of this Study's Cash Flow Analysis. In addition, we recommend additional annual assessments of \$32,000 from 2011 through 2015 to fund replacement of the lake bulkhead.

The recommended year 2011 Reserve Contribution of \$103,000 is \$65,200 more than the prior budgeted amount and represents about a fifty-six percent (56.1%) adjustment in the 2010 total Operating Budget of \$116,200. This initial adjustment of \$65,200 is equivalent to an average monthly increase of \$25.15 per unit owner. The Additional Assessments of \$32,000 from 2011 through 2015 are equivalent to an average monthly Additional Assessment of approximately \$12.35 per unit owner. The Reserve Contributions are necessary to maintain a Reserve Fund for the *future* major expenditures as identified in **Exhibit B**. The Additional Assessments are necessary to fund the *near term* major expenditures including replacement of the lake bulkhead, as identified in **Exhibit B**. We recognize that the initial recommended Reserve Contribution and Additional Assessments are significant and may require approval of

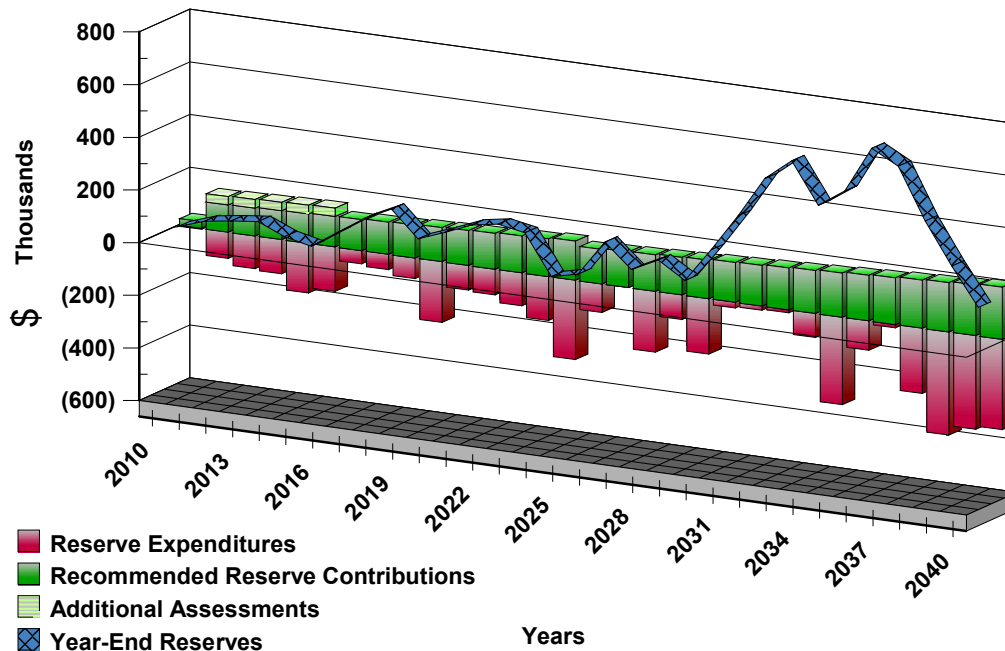
the homeowners. **Exhibit B Reserve Funding Plan** enumerates the details regarding recommended annual Reserve Contributions and projected year end reserve balances.

Based on the investigation and analysis as detailed in the accompanying narrative, we recommend the following Reserve Funding Plan (Reserve Contributions) to offset the anticipated future Reserve Expenditures of the subject Reserve Components during the next 30 years.

Recommended Reserve Contributions

| Year | \$ | Year | \$ | Year | \$ |
|------|---------|------|---------|------|---------|
| 2011 | 135,000 | 2021 | 135,700 | 2031 | 154,200 |
| 2012 | 137,900 | 2022 | 139,500 | 2032 | 158,500 |
| 2013 | 140,900 | 2023 | 143,400 | 2033 | 162,900 |
| 2014 | 143,900 | 2024 | 147,400 | 2034 | 167,500 |
| 2015 | 147,000 | 2025 | 130,500 | 2035 | 172,200 |
| 2016 | 118,200 | 2026 | 134,200 | 2036 | 177,000 |
| 2017 | 121,500 | 2027 | 138,000 | 2037 | 182,000 |
| 2018 | 124,900 | 2028 | 141,900 | 2038 | 187,100 |
| 2019 | 128,400 | 2029 | 145,900 | 2039 | 192,300 |
| 2020 | 132,000 | 2030 | 150,000 | 2040 | 197,700 |

Recommended Reserve Funding Plan Lake McQueeney Las Brisas Homeowners Association



Ongoing Board reviews and an Update of this Reserve Study in two- to three- years are necessary to ensure an equitable funding plan since a Reserve Study is a snapshot in time. Many variables change after the study is conducted that may result in significant overfunding or underfunding the reserve account. Examples include deferred or accelerated projects based on Board discretion, interest rate changes on reserve investments and *local* construction inflation rate changes. We have not investigated any liabilities against the property.

Respectfully submitted on June 8, 2010 by
RESERVE ADVISORS, INC.



Theodore J. Salgado, PRA¹, RS², Principal
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¹ PRA (Professional Reserve Analyst) is the professional designation of the Association of Professional Reserve Analysts. Learn more about APRA at <http://www.apra-usa.com>.
² RS (Reserve Specialist) is the reserve provider professional designation of the Community Associations Institute (CAI) representing America's more than 300,000 condominium, cooperative and homeowners associations.

NARRATIVE REPORT

At the direction of the Board that recognizes the need for proper reserve planning, we have conducted a *Precision 20/20 Full Reserve Study* of certain property exhibited to us as that of

Lake McQueeney Las Brisas Homeowners Association

Seguin, Texas

and submit our findings in this report. The effective date of this study is the date of our visual, noninvasive inspection, May 11, 2010.

Reserves for replacement are the amounts of money required for future expenditures to repair or replace Reserve Components that wear out before the entire facility or project wears out. Reserving funds for future repair or replacement of the Reserve Components is also one of the most reliable ways of protecting the value of the property's infrastructure and marketability.

This Reserve Study uses a 30-year Cash Flow Analysis to project and illustrate the Reserve Funding Plan. National standards³ require a Reserve Component to have a "predictable remaining Useful Life." Estimating Remaining Useful Lives and Reserve Expenditures beyond 30 years is often indeterminate and may involve more than one life cycle for a particular Reserve Component. Construction inflation can also vary greatly over many years.

³ Identified in the APRA "Standards - Terms and Definitions" and the CAI "Terms and Definitions".

Manner of Report Presentation

Our report comprises an Executive Summary, Narrative, Conclusion, Supplementary Information, Definitions and Exhibits. The Executive Summary identifies the property, fiscal considerations, recommended reserve funding and projections concerning reserve funding. The Narrative sets forth the nature and extent of the investigation and includes the following sections:

- Manner of Report Presentation
- Considerations and Methodology
- Identification of Reserve Components
- Condition Assessment
- Explanation of the Exhibits
- Conclusion
- Supplementary Information for Financial Statements

Supplementary Information for Financial Statements contains significant unaudited information from the Reserve Expenditures about Reserve Component categories and estimated current and future replacement costs. Definitions contains terms and definitions used throughout this Reserve Study and the industry. **Exhibits A, B, C, D** and **E** contain pertinent information relating to the analysis.

Exhibit A *Photographs* documents the conditions of various property components as of the date of our visual inspection, May 11, 2010. The Condition Assessment contains references to these photographs.

Exhibit B presents two tables. The first table Reserve Expenditures includes the Reserve Component Inventory, Reserve Expenditures, estimates of future costs and anticipated times of

replacements during the next 30 years. The second table Reserve Funding Plan includes Reserve Contributions for the next 30 years based on Reserve Expenditures.

Exhibit C *Reserve Funding Graphs* contains two graphs and one pie chart. The graph Recommended Reserve Funding Plan shows the future fund balances based on the anticipated Reserve Expenditures and recommended annual Reserve Contributions during the next 30 years. The second graph Reserve Balances compares the recommended year end amounts of accumulated reserves with the potential shortage of reserves if the Association were to continue contributing to reserves at its current budgeted amount for the next 30 years. The pie chart Estimated Future Reserve Expenditures illustrates the relative importance of Reserve Expenditures and relative funding during the next 30 years.

Exhibit D describes Assumptions of the Reserve Study of how we collect and analyze data. The statement of Professional Service Conditions identifies the general manner of professional services provided, as stated in the original authorized Confirmation of Services for this Reserve Study.

Exhibit E *Credentials* contains the Qualifications of the Firm, Responsible Advisor and Review Coordinator, and resources we use in our analysis, i.e., published sources of cost data.

Considerations and Methodology

This Reserve Study is in compliance with and exceeds the standards set forth by Community Associations Institute (CAI) and the Association of Professional Reserve Analysts (APRA) fulfilling the requirements of a “Full Reserve Study.” For brevity, we use the term Reserve Study herein. We considered the following factors in our analysis:

| Information Furnished by Management | |
|----------------------------------------------------------|-----------|
| April 30, 2010 projected Cash Status of the Reserve Fund | \$0 |
| Remaining 2010 Budgeted Reserve Contributions | \$25,200 |
| Anticipated Interest on Reserve Fund | \$129 |
| Less Anticipated Reserve Expenditures | (\$4,000) |
| Projected 2010 Year-End Reserve Balance | \$21,329 |

The Cash Flow Method to compute the 30-year Reserve Funding Plan

The identification of individual Reserve Components with their anticipated year of replacement as detailed in **Exhibit B Reserve Expenditures**

Local⁴ costs of material, equipment and labor

The current and future costs of replacement for the Reserve Components

The costs of removal of the worn out elements as part of the cost of replacement

Local economic conditions and a historical perspective to arrive at our estimate of long term future inflation for *construction costs* in Seguin, Texas at an annual inflation rate of 2.8%

The past and current maintenance practices of Las Brisas and their effects on remaining useful lives

The Funding Plan excludes necessary operating budget expenditures. It is our understanding that the current operating budget and future operating budgets will provide for the ongoing normal maintenance of Reserve Components or property elements unless specifically identified in the *Reserve Component Inventory* of **Exhibit B Reserve Expenditures**. Las Brisas should continue to include these costs of maintenance in the operating budget.

⁴ See **Exhibit E Credentials** for addition information on our use of published sources of cost data.

The anticipated effects of appreciation of the reserves over time in accord with your average current cash equivalent assets at an annual rate of 1.8% (We did not consider the costs, if any, of Federal and State Taxes on income derived from interest and/or dividend income)

Interest rates on reserves are steady or increasing in concert with the certificates of deposit and money market rates. No significant differences exist in the savings rates of one, two or three-year CDs. Without significant differences in these savings rates, shorter term investments are the choice of many investors. We recommend consultation with a professional investment adviser before investing reserves to determine an appropriate investment strategy to maximize a safe return on reserve savings.

Updates to this Reserve Study will continue to monitor historical facts and trends concerning the external market conditions. The following table summarizes rates of inflation and key rates for government securities, generally considered as safe investment alternatives.

| Interest Rate and Inflation Data | | | | | | | | |
|---------------------------------------------------------------------------|------------|-----------------------------------|------------|------------|------------|-----------------------------------|------------|------------|
| Average or Last Actual = (A) | 2008:1 (A) | 2009:1 (A) | 2009:2 (A) | 2009:3 (A) | 2009:4 (A) | 2010:1 (E) | 2010:2 (E) | 2010:3 (E) |
| 90-Day Treasury Bill | 0.125% | 0.25% | 0.25% | 0.25% | 0.05% | 0.05% | 0.1% | 0.1% |
| 1-Year Treasury Bill | 1.60 | 0.95 | 0.90 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 |
| 10-Year Treasury Note | 3.35 | 2.75 | 2.84 | 3.20 | 3.45 | 3.50 | 3.60 | 3.60 |
| 30-Year Treasury Bond | 4.15 | 3.70 | 3.70 | 4.00 | 4.45 | 4.50 | 4.55 | 4.55 |
| Consumer Price Index | 4.00 | 0.2% | 0.5% | 0.0% | 0.2% | 1% | 2% | 2% |
| Construction Inflation, Bureau of Labor Statistics (Materials & Labor) | | 2.0% | 1.7% | 1.5% | 2.0% | 3.0% | 3.5% | |
| National Market Savings Rates | 0.75% | for Money Market Savings | | | 2.0% | for 2-Year Certificate of Deposit | | |
| | 1.6% | for 1-Year Certificate of Deposit | | | 2.5% | for 3-Year Certificate of Deposit | | |
| Estimated Near Term Yield Rate for Reserve Savings | 1.8% | | | | | | | |
| Estimated Near Term Inflation Rate for Future Capital Expenditures | 2.8% | | | | | | | |

With localized exceptions, the inflation rate for construction materials and labor are trending higher in a sustained manner. Isolated or regional markets of greater construction (development) activity may experience slightly greater rates of inflation for both construction materials and labor.

Identification of Reserve Components

Lake McQueeney Las Brisas Homeowners Association is a planned unit development which is responsible for the common elements shared by 216 single family homes. The Association was built from 1987 to 2002. The development contains asphalt streets and a marina. We identify 21 major common elements that are likely to require capital repair or replacement during the next 30 years.

Our investigation included Reserve Components or property elements as set forth in your Declaration. Our analysis began by segregating the property elements into several areas of responsibility for repair and replacement. We derived these segregated classes of property from our review of the information provided to us and through conversations with Management.

These four classes of property include:

- 1) Reserve Components
- 2) Long-Lived Property Elements
- 3) Operating Budget Funded Repairs and Replacements
- 4) Property Maintained by Homeowners

We advise that the Board conduct an annual review of these classes of property to confirm its policy concerning the manner of funding, i.e., from reserves or the operating budget.

The following pages briefly describe these four classes.

Reserve Components are defined as property elements with: 1) Las Brisas responsibility; 2) limited Useful Life expectancies; 3) predictable Remaining Useful Life expectancies; and 4) a replacement cost above a minimum threshold.

The Reserve Components comprise 21 line items likely to require Reserve Expenditures during the next 30 years. **Exhibit B Reserve Expenditures** details this first class of property which we summarize as follows:

Property Site Elements (Line Items 4.020 through 4.810)

- Asphalt Pavement
- Fences, Metal
- Gates, Card Reader, Keypads and Operators
- Irrigation System
- Light Poles and Fixtures
- Lake
- Signage, Entrance Monuments and Columns

Marina Elements (Line Items 7.367 through 7.501)

- Awning, Metal
- Boat Slips, Wood
- Concrete Flatwork
- Foot Bridge, Metal
- Gate
- Storage Facility Doors, Metal

In addition to the Reserve Components listed above, we list the following Long-Lived Property Elements, defined as those items without predictable Remaining Useful Life expectancies:

- Electrical Systems, Common
- Fiber Cement Siding, Marina
- Foot Bridge, Metal
- Pipes, Subsurface Utilities
- Structural Frame, Storage Facility, Marina

Long-Lived Property Elements (without predictable Remaining Useful Lives) may require infrequent repairs due to abuse, normal wear and tear or unknown construction defects. Las Brisas should fund the cost of these infrequent replacements from the operating budget. Funding untimely or unexpected replacements from reserves will necessitate adjustments to

future Reserve Contributions. An update of this Reserve Study will help determine the merits of adjusting the Reserve Funding Plan.

The operating budget provides money for the repair and replacement of certain Reserve Components. Operating Budget Funded Repairs and Replacements relate to:

- General Maintenance to the Common Elements
- Expenditures less than \$2,000 (*These relatively minor expenditures have a limited effect on the recommended Reserve Contributions.*)
- Irrigation System, Pump
- Irrigation System, Controllers
- Fences, Metal, Paint Finishes
- Gates, Metal, Paint Finishes
- Landscape
- Paint Finishes, Touch Up
- Storage Facility, Paint Finishes
- Other Repairs normally funded through the Operating Budget

Certain items have been designated as the responsibility of the homeowner to repair or replace. Property Maintained by Homeowners relates to unit:

- Homes
- Lots and Improvements

Condition Assessment

The Condition Assessment of this *Precision 20/20 Full Reserve Study* includes *Enhanced Solutions and Procedures (ESP)* for select significant components. These narratives describe the Reserve Components, document specific problems and conditions, and may include detailed solutions and procedures for necessary capital repairs and replacements for the benefit of current and future board members. We advise the Board use this information to help define the scope and procedures for repair or replacement when soliciting bids or proposals from contractors. *However, the Report in whole or part is not and should not be used as a design specification or design engineering service.*

Property Site Elements

Asphalt Pavement, Crack Repair, Patch and Flexseal™ - Asphalt pavement comprises approximately 64,010 square yards of streets throughout the community. This quantity includes the parking area at the marina. The asphalt pavement from the entrance of the property through Las Hadas is a shared ownership between Lake McQueeney Las Brisas Homeowners Association and Las Hadas Homeowners Association, a neighboring association. Las Brisas is responsible for eighty percent (80%) of the total cost for repairs and replacement of this section of pavement. The pavement is in good to fair overall condition at ages of 8- to 23-years. We note areas of cracks and seal coat deterioration. Pages 2 and 3 of **Exhibit A Photographs** depict these conditions. Parked vehicles leak motor oil and other fluids that can damage asphalt pavement. Management informs us that Flexseal™ was last applied in 2008 from the front entrance through Las Hadas. The Association anticipates future applications every six- to ten-years. The Association anticipates a Flexseal™ application to the remainder of the property in the near term future.

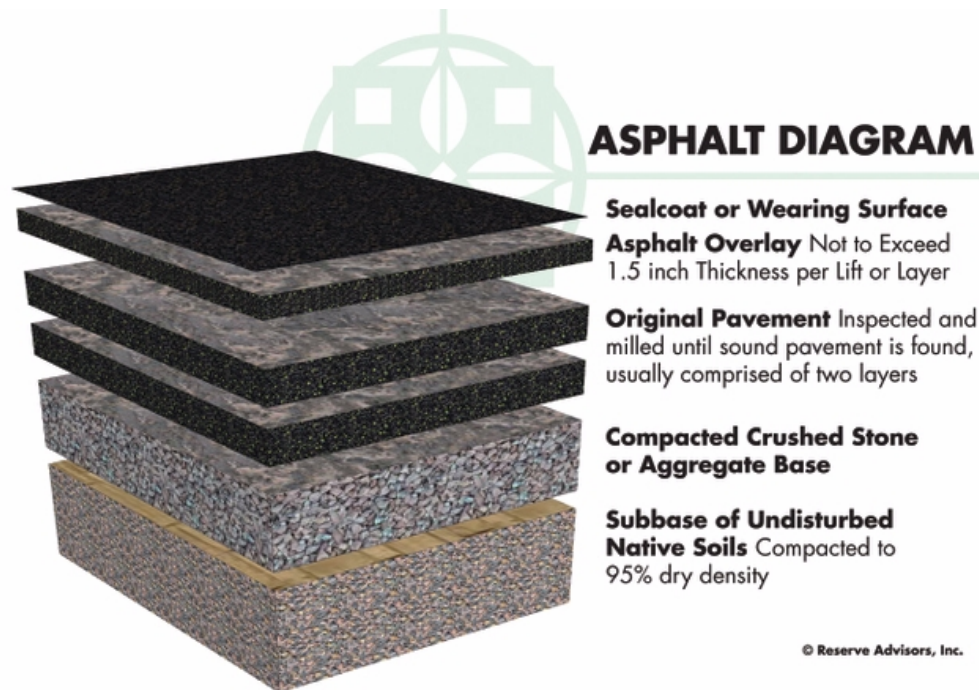
Las Brisas should repair any isolated areas of deteriorated pavement prior to the Flexseal™ applications. Proposals for Flexseal™ applications should include both crack repair and area patching. These activities reduce water infiltration and the effects of inclement weather. The contractor should only apply Flexseal™ applications after remedial crack and surface repairs are completed. Our future estimates of cost include an allowance for both crack repair and area patching.

We recommend that Las Brisas plan the next phased application of Flexseal™ beginning by 2014 and concluding by 2019. Subsequent phased applications are likely every ten years

thereafter. The Association should anticipate Flexseal™ applications from the community entrance to Las Hadas by 2018 and every ten years thereafter. Line Items 4.020 and 4.021 of **Exhibit B Reserve Expenditures** notes our estimate of future costs and anticipated times of Flexseal™ applications.

Asphalt Pavement, Repaving - As previously stated, the 64,010 square yards of asphalt pavement throughout the community are in good to poor overall condition at ages of 8- to 23-years. We note areas of alligator cracks, existing crack repairs and seal coat deterioration. Pages 2 and 3 of **Exhibit A Photographs** depict these conditions. The useful life of pavement in Seguin is from 20- to 25-years with the application of Flexseal™. We include the following solutions and procedures pertaining to *components* of the pavement, the *manner of repaving*, *time* of repaving and *coordination* of other possible replacements with the repaving for the benefit of the present and future board members.

Components of asphalt pavement include native soil, aggregate and asphalt. First the contractor creates a base course of aggregate or crushed stone and native soil. The base course is individually compacted to ninety-five percent (95%) dry density prior to the application of the asphalt. Compaction assures a stable base for the asphalt that reduces the possibility of settlement. The initial installation of asphalt uses at least two lifts, or two separate applications of asphalt, over the base course. The first lift is the binder course. The second lift is the wearing course. The wearing course comprises a finer aggregate for a smoother more watertight finish. The following diagram depicts these components.



The *manner of repaving* is either a *mill and overlay* or *total replacement*. A mill and overlay is a method of repaving where cracked, worn and failed pavement is mechanically removed or milled until sound pavement is found. A new layer of asphalt is overlaid atop the remaining base course of pavement. Total replacement includes the removal of all existing asphalt down to the base course of aggregate and native soil followed by the application of two or more new lifts of asphalt. We recommend mill and overlayment on asphalt pavement that exhibits normal deterioration and wear. We recommend total replacement of asphalt pavement that exhibits severe deterioration, inadequate drainage, pavement that has been overlaid multiple times in the past or where the configuration makes overlayment not possible. Based on the apparent visual condition of the asphalt pavement, we recommend the *mill and overlay* method of repaving at Las Brisas.

A variety of repairs are necessary to deteriorated pavement prior to the application of an overlay. The contractor should use a combination of area patching, crack repair and milling before the overlayment. The contractor should patch areas that exhibit potholes, alligator or spider web pattern cracks and areas of pavement that are severely deteriorated from oil and gasoline deposits from parking vehicles. Area patching requires total replacement of isolated areas of pavement. The contractor should mechanically rout and fill all cracks with hot emulsion. Crack repair minimizes the chance of the underlying cracks transmitting through the overlayment. Milling also allows the contractor to make adjustments to the slope of the pavement to ensure proper drainage. The contractor should clean the milled pavement to ensure proper bonding of the new overlayment. We recommend an overlayment thickness that averages 1½ inches (not less than one inch or more than two inches). Variable thicknesses are often necessary to create an adequate slope for proper drainage. The contractor should identify and quantify areas of pavement that require area patching, crack repair and milling to help the Association compare proposed services.

Total replacement requires the removal of all existing asphalt. For area patching, we recommend the contractor use a rectangular saw cut to remove the deteriorated pavement. For larger areas such as entire parking areas or driveways, we recommend the contractor grind, mill or pulverize the existing pavement to remove it. The contractor should then augment and compact the existing aggregate and native soil to create a stable base. Finally the contractor should install the new asphalt in at least two lifts.

The *time* of replacement is dependent on the useful life, age and condition of the pavement. The useful life of 20- to 25-years is dependent in part on the maintenance applied to

the pavement, the amounts and concentration of auto solvents that penetrate the pavement, the exposure to sunlight and detrimental effects of inclement weather. Las Brisas should repair any isolated areas of deteriorated pavement concurrent with periodic Flexseal™ applications. Based on the existing ages of 8- to 23-years and the good to poor overall condition of the pavement, we estimate a remaining useful life of 2- to 17-years. We recommend the Association plan for a phased milling and overlayment of the pavement with area patching of up to fifteen percent (15%) beginning by 2012 and concluding by 2025. A subsequent phased milling and overlayment of the pavement is likely beginning by 2037. We note this information on Line Item 4.040 of **Exhibit B Reserve Expenditures**. We also recommend the Association plan for a milling and overlayment of the shared pavement with area patching of up to fifteen percent (15%) by 2027. We depict this information on Line Item 4.041 of **Exhibit B Reserve Expenditures**.

Fences, Metal - Approximately 365 linear feet of metal fences line the entrance of the property. The fences are in good *overall* condition at an age of 23 years. We note isolated areas of damage and rust. Page 4 of **Exhibit A Photographs** depicts these conditions. Fences of this type have a long useful life but are not maintenance free. Periodic maintenance should include periodic applications of protective paint finish to the metal surfaces and partial replacement of deteriorated sections as needed. Metal components at grade and key structural connections are especially prone to failure if not thoroughly maintained. Secure and rust free fasteners and connections will prevent premature deterioration. The protective finishes are in fair overall condition. The Association should also apply periodic paint applications as normal maintenance funded through the operating budget. We anticipate replacement of the fences by 2022 and depict this information on Line Item 4.245 of **Exhibit B Reserve Expenditures**.

Gates, Card Reader, Keypads and Operators - Two slider gates, a card reader, two keypads and two operators limit access into the community. The elements at the gated entry are in good to poor condition at unknown ages. Management informs us the Association anticipates replacement of these elements within the near term. We anticipate a useful life of up to ten years for the operators and recommend the Association budget for their replacement by 2014 and every ten years thereafter. The Association should anticipate a useful life of up 10- to 15-years for the keypads and card reader. We recommend replacement by 2013 and again by 2028. The gates have a longer useful life of up to 20 years. Las Brisas should anticipate a phased replacement of the gates beginning in 2010 and concluding by 2014. A subsequent phased replacement is likely beginning by 2030 and concluding by 2034. We depict this information on Line Items 4.319 through 4.331 of **Exhibit B Reserve Expenditures**.

Irrigation System - An irrigation system waters the common lawn and landscaped areas at Las Brisas. Management informs us the system comprises four controllers, one 1-HP (horsepower) pump, and 21 zones with 140 heads. An irrigation system typically includes the following components:

- Electronic controls (timers)
- Impact rotors
- Network of supply pipes
- Pop-up heads
- Pump
- Valves

Water pressure activates the lawn spray pop-up heads. Controllers operate the main water flow valves. The exact amounts and locations of system components were not ascertained due to the nature of the underground construction and the non-invasive nature of the inspection.

The overall condition of the irrigation system is good at ages of up to 23 years. The system as a whole has a useful life of 35- to 40-years. The system network supply pipes will dislodge as tree roots grow and soil conditions change. Las Brisas should anticipate interim and partial replacements of the system network supply pipes and other components, i.e., controllers, pump motors, electronic and mechanical items, as normal maintenance to maximize the useful life of the irrigation system. The Association should fund these ongoing seasonal repairs through the operating budget. Management informs us the Association has recently repaired the irrigation systems at the marina and entrance for \$7,422. We recommend Las Brisas budget for partial replacements of up to eleven percent (10.8%) the system by 2015 and every five years thereafter. The times and costs of these partial replacements may vary. However, the estimated expenditures are sufficient to budget appropriate reserves. We note this information on Line Item 4.420 of **Exhibit B Reserve Expenditures**.

Light Poles and Fixtures - The Association utilizes a combination of 42 light fixtures atop steel and wood poles to illuminate the property. The Association anticipates replacement of the remaining 11 wood poles with steel poles within the near term on an as needed basis. We recommend the Association fund for replacement of up to two poles per year beginning in 2011 and concluding by 2015. The existing 31 steel poles and fixtures are in good overall condition at an estimated age of up to five years. Steel exterior light poles and fixtures have useful lives of up to 25 years. The Association should anticipate the need to phase replacement of the steel poles and their associated fixtures beginning by 2030 based on their varying ages. We note this information on Line Items 4.560 and 4.561 of **Exhibit B Reserve Expenditures**.

Lake, Bulkhead - Las Brisas maintains approximately 2,700 linear feet of bulkhead which comprises both wood and vinyl composite sections. The bulkhead is in good to poor condition at ages of up to 23 years. The Association is currently in the process of replacing the wood bulkhead with a vinyl composite bulkhead. The Association has spent \$125,310 since beginning the partial replacements in 2006. We anticipate a useful life of 25 to 30 years for the vinyl composite bulkhead. We recommend the Association budget for replacement of the remaining approximately 1,890 linear feet beginning in 2011 and concluding by 2017. A subsequent phased replacement is likely beginning by 2033. We depict this information on Line Item 4.703 of **Exhibit B Reserve Expenditures**.

Lake, Dredging - The gradual build-up of natural debris, including tree leaves, branches and silt, may eventually change the topography of areas of the lake. Dredging of a lake becomes necessary if this accumulation alters the quality of the lake water. Dredging is the optimal but also the most capital intensive method of lake management. Excavation equipment used for dredging includes clamshells, draglines and suction pipe lines. Dredging can also include shoreline regrading. Regrading includes removal of collapsed and eroded soil, and redefining the shoreline.

The Association maintains approximately 4,700 square yards of water surface area. Based on the visual condition of the lake and reported issues with boats not being able to pass through the marina without incident, we recommend the Association anticipate the need to dredge the marina portion of the lake. However, the actual volume of material to dredge may vary dependent upon an invasive analysis at the time of dredging. We conservatively recommend that the Association defer this variable but probable activity until 2015, due to

funding constraints. A subsequent partial dredging event is likely by 2040. The time and cost of this maintenance activity may vary. However, we judge the amount shown on Line Item 4.710 of **Exhibit B Reserve Expenditures** sufficient to budget appropriate reserves.

Signage, Entrance Monuments and Columns - The Association maintains two property identification signs that include lettering and masonry. The signage is in good condition at an age of 23 years. Community signage contributes to the overall aesthetic appearance to owners and potential buyers. Renovation or replacement of community signs is often predicated upon the desire to "update" the perceived identity of the community rather than for utilitarian concerns. Therefore, the specific times for replacement or renovation are discretionary. We recommend the Association plan to renovate the signage every 20 years, or by 2018 and again by 2038. Renovation should include the following work:

- Replacement of the lettering
- Repointing and repairs to the 1,665 square feet of masonry (includes columns)

We note this information on Line Item 4.810 of **Exhibit B Reserve Expenditures**. The Association should fund interim repairs and replacements through the operating budget.

Marina Elements

Awning, Metal - Las Brisas maintains 29 squares of metal awning at the marina storage facility. The awning is in good condition at an age of 11 years. The metal awning has a useful life of up to 25 years. We recommend the Association budget for replacement by 2024. We depict this information on Line Item 7.367 of **Exhibit B Reserve Expenditures**.

Boat Slips, Wood - Approximately 1,400 square feet comprise the boat slips at the marina. The boat slips are in poor condition at an age of 11 years. We note areas of warped and split sections of boards. Page 7 of **Exhibit A Photographs** depicts their conditions. The boat slips have a useful life of 10- to 15-years. We recommend the Association budget for their replacement in 2011 and every 12 years thereafter. We depict this information on Line Item 7.381 of **Exhibit B Reserve Expenditures**. Our estimate of cost includes an allowance for replacement of up to twenty-five percent (25%) of the wood piles.

Concrete, Flatwork - The Association maintains various applications of concrete flatwork such as a *boat launch* and *sidewalks* at the marina. These applications of concrete have useful lives of up to 65 years although premature deterioration of isolated areas of concrete is common. Inclement weather, inadequate subsurface preparation and improper concrete mixtures or finishing techniques can result in premature deterioration such as settlement, chips, cracks and spalls. Variable conditions like these result in the need to plan for periodic partial replacements of the concrete flatwork throughout the next 30 years. We comment on the respective quantities, conditions and times of partial replacements of **concrete flatwork** in the following sections of this narrative.

Concrete Boat Launch - The boat launch comprises approximately 530 square feet of concrete and is in fair overall condition.

Concrete Sidewalks - Concrete sidewalks comprise approximately 1,550 square feet at the marina. The sidewalks are in fair overall condition.

The Association should coordinate the concrete flatwork partial replacements, this will permit the use of a single contractor and likely achieve the most economical unit price for the work. We estimate that up to 1,050 square feet of the concrete flatwork, or fifty percent (50.4%) of the total, will require replacement during the next 30 years. We recommend the Association budget for replacement of 350 square feet of concrete flatwork every ten years beginning in 2011. The times and costs of these replacements may vary. However, the estimated expenditures detailed on Line Item 7.392 **Exhibit B Reserve Expenditures** are sufficient to budget appropriate reserves. We also recommend an annual inspection of the sidewalks to identify potential trip hazards. We suggest that the Association grind down or mark these hazards with orange safety paint prior to replacement and fund this ongoing activity through the operating budget.

Foot Bridge, Metal - Las Brisas maintains one metal foot bridge at the marina. The foot bridge is in overall good condition at an age of 11 years. The foot bridge has an indefinitely long useful life with periodic finish applications and proper maintenance. We recommend the Association budget for capital repairs to the foot bridge up to every six years. The capital repairs are to include inspection and paint finish applications to the rails, structure, and top and bottom side of the decking. We depict this information on Line Item 7.401 of **Exhibit B Reserve Expenditures**.

Gate - One swing gate limits vehicular entry into the marina. The gate is in good condition at an age of 11 years. We anticipate a useful life of up to 20 years for the gate. We recommend the Association budget for its replacement by 2018 and again by 2038. We depict this information on Line Item 7.461 of **Exhibit B Reserve Expenditures**. Our estimate of cost includes and allowance for replacement of the card reader and fence.

Storage Facility Doors, Metal - Las Brisas maintains ten metal doors at the storage facility. These doors are in good condition at an age of 11 years. The useful life of metal doors is up to 30 years. We suggest that the Association budget to aggregate replacement of the doors by 2029. This type of replacement will ensure the availability of similar hardware and maintain aesthetic continuity. We include this information on Line Item 7.501 of **Exhibit B Reserve Expenditures**.

Reserve Study Update - An ongoing review by the Board and an Update of this Reserve Study in two- to three- years are necessary to ensure an equitable funding plan since a Reserve Study is a snapshot in time. Many variables change after the study is conducted that may result in significant overfunding or underfunding the reserve account. Variables that may affect the Reserve Funding Plan include, but are not limited to:

- Deferred or accelerated capital projects based on Board discretion
- Changes in the interest rates on reserve investments
- Changes in the *local* construction inflation rate
- Additions and deletions to the Reserve Component Inventory
- The presence or absence of maintenance programs
- Unusually mild or extreme weather conditions
- Technological advancements

Periodic updates incorporate these variable changes since the last Reserve Study or Update.

The Association can expense the fee for an Update with site visit from the reserve account. This fee is included in the Reserve Funding Plan. We base this budgetary amount on updating the same property components and quantities of this Reserve Study report. Budgeting

for an Update demonstrates the Board's objective to continue fulfilling its fiduciary responsibility to maintain the commonly owned property and to fund reserves appropriately.

Explanation of the Exhibits

Exhibit A *Photographs* documents the conditions of various property components as of the date of our visual inspection, May 11, 2010. The previous section, Condition Assessment, contains several references to these photographs.

Exhibit B *Reserve Expenditures and Reserve Funding Plan* covers a 30-year period. Information about the Reserve Components and Expenditures for the most relevant next 20 years (2010 through 2030) is found on a convenient 11- by 17-inch foldout spreadsheet. The remaining ten years (2031 through 2040) follow in a concise 8½- by 11-inch table. Data for each Reserve Component is presented on a single row with columns of information as follows:

- Line Items are included for reference purposes
- Total Quantities are the total anticipated quantity for replacement during the next 30 years (*this is not necessarily the “total” quantity maintained by the Association as this quantity may represent more than one Useful Life cycle or a partial replacement*)
- Per Phase Quantities are the anticipated quantity for each replacement event
- Units clarify the unit of measure used to quantify the elements
- Reserve Component Inventory identifies each Reserve Component
- The Estimated First Year of Replacement is included to help the Association understand the priority of future Reserve Expenditures
- Results of the Life Analysis show both the total Useful Life and Remaining Useful Life for each Reserve Component
- Unit Cost is the cost per unit we used to calculate the per phase cost
- The 2010 Cost of Replacement Per Phase is the per phase cost in today’s dollars
- The Total Future Costs of Replacement is the total cost for all phases of replacement during the next 30 years and *includes* the effects of inflation at a 2.8% annual percentage rate
- The remaining columns in Reserve Expenditures 11- by 17-inch foldout spreadsheet present the estimated future inflated costs for each for the next 20 years

- The remaining ten years of future Reserve Expenditures from years 2031 to 2040 follow in a concise 8½- by 11-inch table

Exhibit B Reserve Funding Plan includes the Cash Flow Analysis and recommended Reserve Contributions for the next 30 years based on the Reserve Expenditures and a 1.8% annual percentage rate earned on the average annual fund balances. The specific information found on the last 11- by 17-inch foldout spreadsheet includes:

- Reserves at Beginning of Year
- Recommended Reserve Contribution (positive cash flow)
- Estimated Interest Earned
- Anticipated Expenditures (negative cash flow)
- Anticipated Reserves at Year End
- Predicted Reserves (based on current funding levels)

Exhibit C Reserve Funding Graphs contains two graphs and a pie chart based on the numerical data found in the Reserve Funding Plan. The graphs illustrate our recommendations and observations pertaining to reserve balances, recommended annual Reserve Contributions and Reserve Expenditures during the next 30 years.

The second Reserve Funding Graph titled Reserve Balances compares the recommended year-end amounts of reserves with the potential shortage of reserves if the Association were to continue contributing to reserves at its current budgeted amount for the next 30 years. The potential shortages are based on matching the estimated future Reserve Expenditures against existing reserves and current annual amounts of Reserve Contributions. This second graph answers the hypothetical question of when a shortfall in reserves could occur if there were no change in the annual budget of Reserve Contributions.

The pie chart Estimated Future Reserve Expenditures illustrates the relative importance of the Reserve Expenditures and relative funding during the next 30 years. Las Brisas can regard reserve needs for these expenditures as requiring a similar allocation of existing reserves and future Reserve Contributions.

Exhibit D describes Assumptions of the Reserve Study of how we collect and analyze data. The statement of Professional Service Conditions identifies the general manner of professional services provided, as stated in the original authorized Confirmation of Services for this Reserve Study.

Exhibit E *Credentials* contains the Qualifications of the Firm, Responsible Advisor and Review Coordinator. Theodore J. Salgado and John P. Poehlmann are the Principals of Reserve Advisors, Inc., Heather A. Franck conducted the visual inspection of Lake McQueeney Las Brisas Homeowners Association and Jason P. Kubus served as Review Coordinator for this Reserve Study.

CONCLUSION

At the direction of the Board that recognizes the need for proper reserve planning, we have conducted a *Precision 20/20 Full Reserve Study* of Lake McQueeney Las Brisas Homeowners Association (Las Brisas) located in Seguin, Texas and submit our findings in this report. The effective date of this study is the date of our visual, noninvasive inspection, May 11, 2010. This Reserve Study is a budget planning tool that identifies the current status of the reserve fund and a stable and equitable Reserve Funding Plan to offset the anticipated future major common area expenditures.

We identified the anticipated Reserve Expenditures for Reserve Components during the next 30 years as either near term or long term. *Near term* expenditures relate to capital needs from now through 2015, the next five years beyond this current fiscal year. These *near term* expenditures comprise \$717,487, or about sixteen percent (15.9%), of the next 30 years of **Exhibit B Reserve Expenditures**. Expenditures within the next five years are more important when compared with the future needs of Las Brisas and tend to govern the amounts of recommended Reserve Contributions. The current Reserve Expenditures relate primarily to the partial replacements of the lake bulkhead.

The Association budgeted \$37,800 for Reserve Contributions in 2010. We recommend that the Association adopt a reserve budget of \$103,000 in 2011. Afterwards, the Association should budget gradual annual increases in reserve funding, that in part consider the effects of inflation through 2024. By 2025, the Association should have established enough in reserves to cover their near term expenditures. Therefore, the Association may anticipate a *decrease* in the annual Reserve Contribution to \$130,500. Beginning in 2026, the Association may again

anticipate less significant adjustments in reserve funding, that in part consider the effects of inflation through 2040, the limit of this Study's Cash Flow Analysis. In addition, we recommend additional annual assessments of \$32,000 from 2011 through 2015 to fund replacement of the lake bulkhead.

The recommended year 2011 Reserve Contribution of \$103,000 is \$65,200 more than the prior budgeted amount and represents about a fifty-six percent (56.1%) adjustment in the 2010 total Operating Budget of \$116,200. This initial adjustment of \$65,200 is equivalent to an average monthly increase of \$25.15 per unit owner. The Additional Assessments of \$32,000 from 2011 through 2015 are equivalent to an average monthly Additional Assessment of approximately \$12.35 per unit owner. The Reserve Contributions are necessary to maintain a Reserve Fund for the *future* major expenditures as identified in **Exhibit B**. The Additional Assessments are necessary to fund the *near term* major expenditures including replacement of the lake bulkhead, as identified in **Exhibit B**. We recognize that the initial recommended Reserve Contribution and Additional Assessments are significant and may require approval of the homeowners. **Exhibit B Reserve Funding Plan** enumerates the details regarding recommended annual Reserve Contributions and projected year end reserve balances.

Based on the investigation and analysis as detailed in the accompanying narrative, we recommend the following Reserve Contributions to fund the expected expenditures of the subject Reserve Components during the next 30 years.

Recommended Reserve Contributions

| Year | \$ | Year | \$ | Year | \$ |
|------|---------|------|---------|------|---------|
| 2011 | 135,000 | 2021 | 135,700 | 2031 | 154,200 |
| 2012 | 137,900 | 2022 | 139,500 | 2032 | 158,500 |
| 2013 | 140,900 | 2023 | 143,400 | 2033 | 162,900 |
| 2014 | 143,900 | 2024 | 147,400 | 2034 | 167,500 |
| 2015 | 147,000 | 2025 | 130,500 | 2035 | 172,200 |
| 2016 | 118,200 | 2026 | 134,200 | 2036 | 177,000 |
| 2017 | 121,500 | 2027 | 138,000 | 2037 | 182,000 |
| 2018 | 124,900 | 2028 | 141,900 | 2038 | 187,100 |
| 2019 | 128,400 | 2029 | 145,900 | 2039 | 192,300 |
| 2020 | 132,000 | 2030 | 150,000 | 2040 | 197,700 |

The Reserve Funding Plan recommends 2040 year end accumulated reserves of approximately \$137,000. We judge this amount of accumulated reserves in 2040 desirable or necessary, in consideration of the age, size and complexity of the property. These future needs, although beyond the limit of the Cash Flow Analysis of this Reserve Study, are reflected in the amount of accumulated 2040 year end reserves.

An ongoing review by the Board and an Update of this Reserve Study in two- to three-years are necessary to ensure a continued equitable funding plan since a Reserve Study is a snapshot in time. Many variables change after the Reserve Study is conducted that may result in significant overfunding or underfunding. Examples include deferred or accelerated capital

projects based on Board discretion, changes in the interest rates on reserve investments; and changes in the *local* construction inflation rate.

This report, although preliminary in nature, is a valid opinion. Las Brisas should consider this report as complete and final if it does not request a final report.

SUPPLEMENTARY INFORMATION FOR FINANCIAL STATEMENTS

The *Audit and Accounting Guide for Common Interest Realty Associations* presents recommendations on Supplementary Information on Future Major Repairs and Replacements in end of fiscal year Audits of Financial Statements for community associations⁵. Accountants use discretion and judgment on how to present the Supplementary Information on Future Major Repairs and Replacements. However, the Supplementary Information on Future Major Repairs and Replacements often references and includes excerpts from our Reserve Studies. The following table excerpts significant unaudited information from the Reserve Expenditures about Reserve Component categories and estimated current and future replacement costs based on inflation at an annual rate of 2.8%.

Unaudited Supplemental Information on Future Major Repairs and Replacements

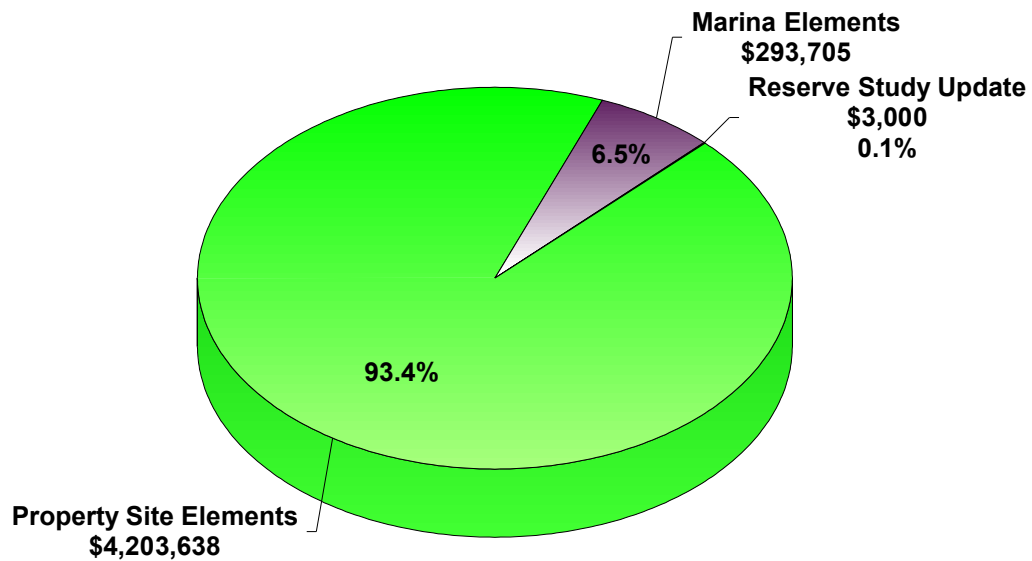
| <i>Reserve Component Categories</i> | <i>Total Current Replacement Costs</i> | <i>Total Future or Inflated Replacement Costs</i> | <i>% of Total Future Replacements</i> | <i>Component of Projected 2010 YE Fund Balance</i> |
|-----------------------------------------|--------------------------------------------|-------------------------------------------------------|-------------------------------------------|--------------------------------------------------------|
| Property Site Elements | \$2,660,440 | \$4,203,638 | 93.4% | \$19,923 |
| Marina Elements | \$196,350 | \$293,705 | 6.5% | \$1,392 |
| Reserve Study Update | \$3,000 | \$3,000 | 0.1% | \$14 |
| Totals | \$2,859,790 | \$4,500,343 | 100% | \$21,329 |

The information included in the table above may be included as part of the Supplementary Information on Future Major Repairs and Replacements. *However, Reserve Advisors, Inc. does not certify that the information in the table will fully satisfy the recommendations of the AICPA guideline.*

⁵ American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide - Common Interest Realty Associations*; American Institute of Certified Public Accountants, Inc.; 2003

The most important category of Reserve Components noted in **Exhibit B Reserve Expenditures** is the Property Site Elements. The following chart illustrates the relative importance of the Reserve Expenditures and relative funding during the next 30 years.

Future Expenditures Relative Cost Illustration Lake McQueeney Las Brisas Homeowners Association



DEFINITIONS¹

Cash Flow Method - A method of calculating Reserve Contributions 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.

Current Cost of Replacement - That amount required today derived from the quantity of a *Reserve Component* and its unit cost to replace or repair a Reserve Component using the most current technology and construction materials, duplicating the productive utility of the existing property at current local market prices for materials, labor and manufactured equipment, contractors' overhead, profit and fees, but without provisions for building permits, overtime, bonuses for labor or premiums for material and equipment. We include removal and disposal costs in the cost of replacement where applicable.

Funding Goal - The stated purpose of this Reserve Study to determine the adequate, not excessive, future annual, reasonable *Reserve Contributions* to fund future *Reserve Expenditures*.

Future Cost of Replacement - *Reserve Expenditure* derived from the inflated current cost of replacement or current cost of replacement as defined above, with consideration given to the effects of inflation on local market rates for materials, labor and equipment.

Long-Lived Property Component - Property component of Las Brisas responsibility not likely to require capital repair or replacement during the next 30 years with an unpredictable remaining Useful Life beyond the next 30 years.

Remaining Useful Life - The estimated remaining functional or useful time in years of a *Reserve Component* based on its age, condition and maintenance.

Reserve Component - Property elements with: 1) Las Brisas responsibility; 2) limited Useful Life expectancies; 3) predictable Remaining Useful Life expectancies; and 4) a replacement cost above a minimum threshold.

Reserve Component Inventory - Line Items in **Exhibit B Reserve Expenditures** that identify a *Reserve Component*.

Reserve Contribution - An amount of money set aside or *Reserve Assessment* contributed to a *Reserve Fund* for future *Reserve Expenditures* to repair or replace *Reserve Components*.

Reserve Expenditure - *Future Cost of Replacement* of a *Reserve Component*.

Reserve Fund Status - The accumulated amount of reserves in dollars at a given point in time, i.e., at year end.

Reserve Funding Plan - The portion of the Reserve Study identifying the *Cash Flow Analysis* and containing the recommended Reserve Contributions and projected annual expenditures, interest earned and reserve balances.

Reserve Study - A budget planning tool that identifies the current status of the reserve fund and a stable and equitable Funding Plan to offset the anticipated future major common area expenditures.

Useful Life - The anticipated total time in years that a *Reserve Component* is expected to serve its intended function in its present application or installation.

¹ Definitions are derived from the standards set forth by the Community Associations Institute (CAI) representing America's 286,000 condominium and homeowners associations and cooperatives, and the Association of Professional Reserve Analysts, setting the standards of care for reserve study practitioners.

**EXHIBIT A
PHOTOGRAPHS**



Asphalt pavement overview at entrance



Asphalt pavement overview along Las Brisas



Typical residential street



Asphalt pavement along Paseo Del Rio near Marina



Marina parking lot



Asphalt pavement

Note: Alligator cracks



Asphalt pavement

Note: Crack repair



Asphalt pavement

Note: Seal coat deterioration



Metal fence



Metal fence

Note: Damage



Metal fence

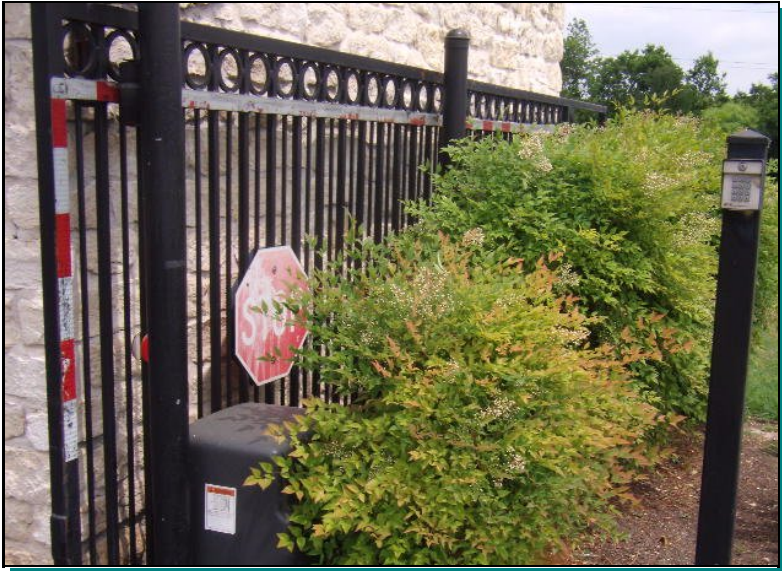
Note: Rust



Gate keypad



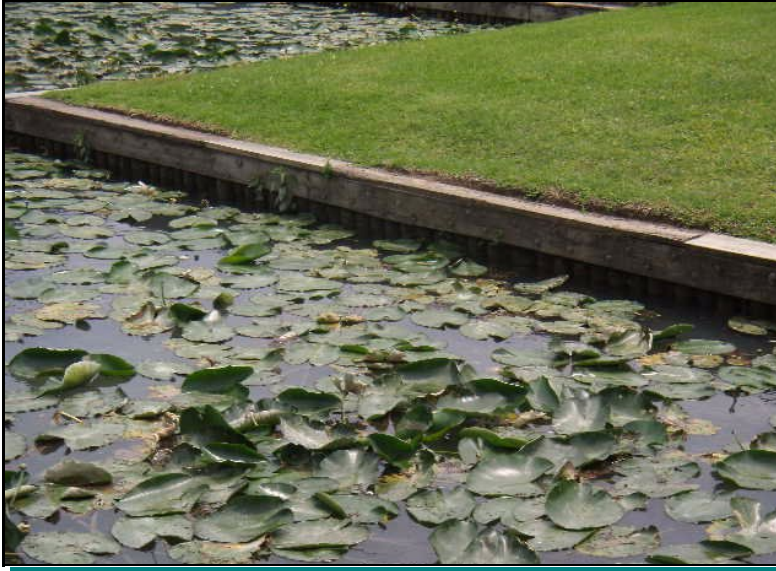
Typical gate operator



Typical gate



Steel light pole with fixture



Wood bulkhead



Vinyl bulkhead



Lake overview within Marina

Note: Lily pads



Storage facility metal awning



Wood boat slips

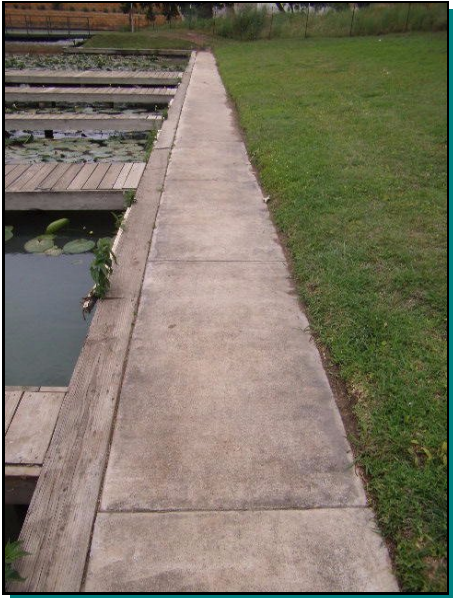


Wood boat slip

Note: Board warp and split



Concrete boat launch



Concrete sidewalk



Concrete sidewalk

Note: Crack



Concrete sidewalk

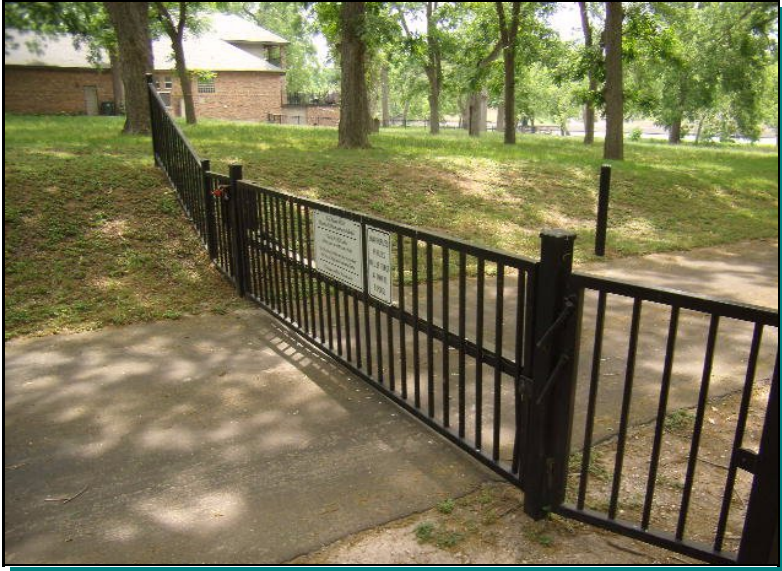
Note: Spall



Metal foot bridge



Metal foot bridge



Metal fence and gate at Marina entrance



Storage facility
Note: Fiber cement siding, metal doors

EXHIBIT B

**RESERVE EXPENDITURES
and
RESERVE FUNDING PLAN**

RESERVE EXPENDITURES

for
Lake McQueeney Las Brisas
Homeowners Association
 Seguin, Texas

Explanatory Notes:

- 1) **2.8%** is the estimated future Inflation Rate for estimating Future Replacement Costs.
- 2) FY 2010 is Fiscal Year beginning January 1 and ending December 31.

| Line Item | Quantities: | | Units | Reserve Component Inventory | Estimated 1st Year of Replacement | Life Analysis, Years | | Unit Cost, \$ | Percentage Ownership | 2010 Cost of Replacement per Phase, \$ | Total Future Costs of Replacement, \$ | (See Notes 1 & 2) | | | | | | | | | | | | | | | | | | | | |
|------------------------------------------|---------------|-----------|--------------|-------------------------------------------------------------|-----------------------------------|----------------------|-----------|---------------|----------------------|----------------------------------------|---------------------------------------|-------------------|--------|---------|---------|---------|---------|--------|--------|---------|---------|--------|--------|---------|---------|---------|---------|--------|---------|--------|---------|--------|
| | 30-Year Total | Per Phase | | | | Useful | Remaining | | | | | RUL = 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| Property Site Elements | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4.020 | 148,635 | 24,773 | Square Yards | Asphalt Pavement, Crack Repair, Patch and Flexseal, Phased | 2014 | 6 to 10 | 4 | 4.50 | 100% | 111,476 | 1,084,486 | | | | | 124,496 | | | | 142,929 | | | | 164,091 | | | 188,387 | | | | | |
| 4.021 | 43,395 | 14,465 | Square Yards | Asphalt Pavement, Crack Repair, Patch and Flexseal (Shared) | 2018 | 6 to 10 | 8 | 4.50 | 80% | 52,074 | 263,384 | | | | | | | | | 64,948 | | | | | | | 85,605 | | | | | |
| 4.040 | 60,555 | 5,505 | Square Yards | Asphalt Pavement, Mill and Overlay, Phased | 2012 | 20 to 25 | 2 | 12.50 | 100% | 68,813 | 1,113,575 | | | 72,720 | 74,756 | | | | | | 88,228 | 90,698 | 93,238 | 95,848 | 98,532 | 101,291 | 104,127 | | | | | |
| 4.041 | 14,465 | 14,465 | Square Yards | Asphalt Pavement, Mill and Overlay (Shared) | 2027 | 20 to 25 | 17 | 12.50 | 80% | 144,650 | 231,314 | | | | | | | | | | | | | | | | 231,314 | | | | | |
| 4.245 | 365 | 365 | Linear Feet | Fences, Metal | 2022 | to 35 | 12 | 57.00 | 100% | 20,805 | 28,979 | | | | | | | | | | | | | | | | 28,979 | | | | | |
| 4.319 | 6 | 3 | Each | Gates, Card Reader and Keypad | 2013 | 10 to 15 | 3 | 1,700.00 | 100% | 5,100 | 13,925 | | | | 5,541 | | | | | | | | | | | | | 8,384 | | | | |
| 4.320 | 6 | 2 | Each | Gate Operators | 2014 | to 10 | 4 | 3,500.00 | 100% | 7,000 | 31,703 | | | | | 7,818 | | | | | | | | 10,304 | | | | | | | | |
| 4.330 | 2 | 1 | Each | Gate, Slider, Entrance | 2014 | to 20 | 4 | 4,000.00 | 100% | 4,000 | 12,228 | | | | | 4,467 | | | | | | | | | | | | | | | | |
| 4.331 | 2 | 1 | Each | Gate, Slider, Exit | 2010 | to 20 | 0 | 4,000.00 | 100% | 4,000 | 10,949 | 4,000 | | | | | | | | | | | | | | | | 6,949 | | | | |
| 4.420 | 6 | 1 | Allowance | Irrigation System, Partial Replacements | 2015 | 35 to 40 | 5 | 2,600.00 | 100% | 2,600 | 26,002 | | | | | | | | | | | | | | | | | 4,517 | | | | |
| 4.560 | 39 | 4 | Each | Light Poles and Fixtures, Steel, Phased | 2030 | to 25 | 20 | 1,725.00 | 100% | 6,038 | 132,965 | | | | | | | | | | | | | | | | | 10,489 | | | | |
| 4.561 | 11 | 2 | Each | Light Poles and Fixtures, Wood, Phased (Replace with Steel) | 2011 | 15 to 20 | 1 | 1,725.00 | 100% | 3,795 | 20,629 | | 3,901 | 4,010 | 4,123 | 4,238 | 4,357 | | | | | | | | | | | | | | | |
| 4.703 | 3,510 | 270 | Linear Feet | Lake, Bulkhead, Phased | 2011 | 25 to 30 | 1 | 158.00 | 100% | 42,660 | 872,335 | | 43,854 | 45,082 | 46,345 | 47,642 | 48,976 | 50,348 | 51,757 | | | | | | | | | | | | | |
| 4.710 | 9,400 | 4,700 | Square Yards | Lake, Dredging, Partial | 2015 | to 25 | 5 | 21.00 | 100% | 98,700 | 339,315 | | | | | 113,314 | | | | | | | | | | | | | | | | |
| 4.810 | 2 | 1 | Allowance | Signage, Entrance Monuments and Columns, Capital Repairs | 2018 | to 20 | 8 | 6,400.00 | 100% | 6,400 | 21,849 | | | | | | | | | | 7,982 | | | | | | | | | | | |
| Marina Elements | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7.367 | 29 | 29 | Squares | Awning, Metal | 2024 | to 25 | 14 | 600.00 | 100% | 17,400 | 25,613 | | | | | | | | | | | | | | | | | 25,613 | | | | |
| 7.381 | 4,200 | 1,400 | Square Feet | Boat Slips, Wood | 2011 | 10 to 15 | 1 | 30.00 | 100% | 42,000 | 187,083 | | 43,176 | | | | | | | | | | | | | | | 60,139 | | | | |
| 7.392 | 1,050 | 350 | Square Feet | Concrete Flatwork, Partial Replacements | 2011 | to 65 | 1 | 9.00 | 100% | 3,150 | 13,132 | | 3,238 | | | | | | | | | | | | | | | 4,268 | | | | |
| 7.401 | 5 | 1 | Allowance | Foot Bridge, Metal, Capital Repairs | 2011 | to 6 | 1 | 5,300.00 | 100% | 5,300 | 38,995 | | 5,448 | | | | | | | | | | | | | | | 8,957 | | | | |
| 7.461 | 2 | 1 | Each | Gate, Swing (Includes Fence) | 2018 | to 20 | 8 | 4,500.00 | 100% | 4,500 | 15,363 | | | | | | | | | | | | | | | | | 5,613 | | | | |
| 7.501 | 10 | 10 | Each | Storage Facility Doors, Metal | 2029 | to 30 | 19 | 800.00 | 100% | 8,000 | 13,519 | | | | | | | | | | | | | | | | | 13,519 | | | | |
| | | 1 | Allowance | Reserve Study Update with Site Visit | 2012 | 2 | 2 | 3,000.00 | | 3,000 | 3,000 | | | | | | | | | | | | | | | | | 3,000 | | | | |
| Anticipated Expenditures, By Year | | | | | | | | | | | \$4,500,343 | 4,000 | 99,617 | 124,812 | 130,765 | 188,661 | 169,632 | 50,348 | 58,187 | 78,543 | 231,157 | 94,125 | 97,506 | 124,827 | 166,260 | 301,299 | 108,061 | 0 | 231,314 | 93,989 | 210,863 | 21,955 |

RESERVE EXPENDITURES

for
Lake McQueeney Las Brisas
Homeowners Association
 Seguin, Texas

| Line Item | 21 2031 | 22 2032 | 23 2033 | 24 2034 | 25 2035 | 26 2036 | 27 2037 | 28 2038 | 29 2039 | 30 2040 |
|-------------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Property Site Elements | | | | | | | | | | |
| 4.020 Asphalt Pavement, Crack Repair, Patch and Flexseal, Phased | | | | 216,280 | | | | | | 248,303 |
| 4.021 Asphalt Pavement, Crack Repair, Patch and Flexseal (Shared) | | | | | | | | 112,831 | | |
| 4.040 Asphalt Pavement, Mill and Overlay, Phased | | | | | | | 145,038 | 149,099 | | |
| 4.041 Asphalt Pavement, Mill and Overlay (Shared) | | | | | | | | | | |
| 4.245 Fences, Metal | | | | | | | | | | |
| 4.319 Gates, Card Reader and Keypad | | | | | | | | | | |
| 4.320 Gate Operators | | | | 13,581 | | | | | | |
| 4.330 Gate, Slider, Entrance | | | | 7,761 | | | | | | |
| 4.331 Gate, Slider, Exit | | | | | | | | | | |
| 4.420 Irrigation System, Partial Replacements | | | | | 5,186 | | | | | 5,953 |
| 4.560 Light Poles and Fixtures, Steel, Phased | 10,782 | 11,084 | 11,395 | 11,714 | 12,042 | 12,379 | 12,725 | 13,082 | 13,448 | 13,825 |
| 4.561 Light Poles and Fixtures, Wood, Phased (Replace with Steel) | | | | | | | | | | |
| 4.703 Lake, Bulkhead, Phased | | | 80,512 | 82,767 | | | 89,916 | 92,433 | 95,021 | 97,682 |
| 4.710 Lake, Dredging, Partial | | | | | | | | | | 226,001 |
| 4.810 Signage, Entrance Monuments and Columns, Capital Repairs | | | | | | | | 13,867 | | |
| Marina Elements | | | | | | | | | | |
| 7.367 Awning, Metal | | | | | | | | | | |
| 7.381 Boat Slips, Wood | | | | | 83,768 | | | | | |
| 7.392 Concrete Flatwork, Partial Replacements | 5,626 | | | | | | | | | |
| 7.401 Foot Bridge, Metal, Capital Repairs | | | | | 10,571 | | | | | |
| 7.461 Gate, Swing (Includes Fence) | | | | | | | | 9,750 | | |
| 7.501 Storage Facility Doors, Metal | | | | | | | | | | |
| Reserve Study Update with Site Visit | | | | | | | | | | |
| Anticipated Expenditures, By Year | 16,408 | 11,084 | 91,907 | 332,103 | 111,567 | 12,379 | 247,679 | 391,062 | 356,772 | 343,461 |

RESERVE FUNDING PLAN

CASH FLOW ANALYSIS
Lake McQueeney Las Brisas
Homeowners Association

Individual Reserve Budgets & Cash Flows for the Next 30 Years

| Seguin, Texas | FY2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|----------------------------------------------------------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Reserves at Beginning of Year (Note 1) | 0 | 21,329 | 57,424 | 71,679 | 83,215 | 39,564 | 17,448 | 86,238 | 151,703 | 201,252 | 101,230 | 141,298 | 182,419 | 200,555 | 181,147 | 29,150 |
| Plus Recommended Reserve Contributions | 25,200 | 103,000 | 105,900 | 108,900 | 111,900 | 115,000 | 118,200 | 121,500 | 124,900 | 128,400 | 132,000 | 135,700 | 139,500 | 143,400 | 147,400 | 130,500 |
| Plus Additional Assessment or Additional Reserve Contributions | | 32,000 | 32,000 | 32,000 | 32,000 | 32,000 | | | | | | | | | | |
| Total Recommended Reserve Contributions (Note 2) | 25,200 | 135,000 | 137,900 | 140,900 | 143,900 | 147,000 | 118,200 | 121,500 | 124,900 | 128,400 | 132,000 | 135,700 | 139,500 | 143,400 | 147,400 | 130,500 |
| Plus Estimated Interest Earned, During Year (Note 3) | 129 | 712 | 1,167 | 1,401 | 1,110 | 516 | 938 | 2,152 | 3,192 | 2,735 | 2,193 | 2,927 | 3,463 | 3,452 | 1,902 | 737 |
| Less Anticipated Expenditures, By Year | (4,000) | (99,617) | (124,812) | (130,765) | (188,661) | (169,632) | (50,348) | (58,187) | (78,543) | (231,157) | (94,125) | (97,506) | (124,827) | (166,260) | (301,299) | (108,061) |
| Anticipated Reserves at Year End | <u>\$21,329</u> | <u>57,424</u> | <u>71,679</u> | <u>83,215</u> | <u>39,564</u> | <u>17,448</u> | <u>86,238</u> | <u>151,703</u> | <u>201,252</u> | <u>101,230</u> | <u>141,298</u> | <u>182,419</u> | <u>200,555</u> | <u>181,147</u> | <u>29,150</u> | <u>52,326</u> |
| | | | | | | (NOTE 4) | | | | | | | | | (NOTE 4) | |
| Predicted Reserves based on 2010 funding level of: \$37,800 | 21,329 | (41,000) | (130,000) | (226,000) | (382,000) | (522,000) | | | | | | | | | | |

(continued)

Individual Reserve Budgets & Cash Flows for the Next 30 Years, Continued

| | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Reserves at Beginning of Year | 52,326 | 188,706 | 97,984 | 148,120 | 85,267 | 216,037 | 359,029 | 514,342 | 595,370 | 440,130 | 509,349 | 684,768 | 630,987 | 436,679 | 278,676 |
| Total Recommended Reserve Contributions | 134,200 | 138,000 | 141,900 | 145,900 | 150,000 | 154,200 | 158,500 | 162,900 | 167,500 | 172,200 | 177,000 | 182,000 | 187,100 | 192,300 | 197,700 |
| Plus Estimated Interest Earned, During Year | 2,180 | 2,592 | 2,225 | 2,110 | 2,725 | 5,200 | 7,897 | 10,035 | 9,363 | 8,586 | 10,798 | 11,898 | 9,654 | 6,469 | 3,756 |
| Less Anticipated Expenditures, By Year | 0 | (231,314) | (93,989) | (210,863) | (21,955) | (16,408) | (11,084) | (91,907) | (332,103) | (111,567) | (12,379) | (247,679) | (391,062) | (356,772) | (343,461) |
| Anticipated Reserves at Year End | <u>188,706</u> | <u>97,984</u> | <u>148,120</u> | <u>85,267</u> | <u>216,037</u> | <u>359,029</u> | <u>514,342</u> | <u>595,370</u> | <u>440,130</u> | <u>509,349</u> | <u>684,768</u> | <u>630,987</u> | <u>436,679</u> | <u>278,676</u> | <u>136,671</u> |
| | | | | | | | | | | | | | | | (NOTE 5) |

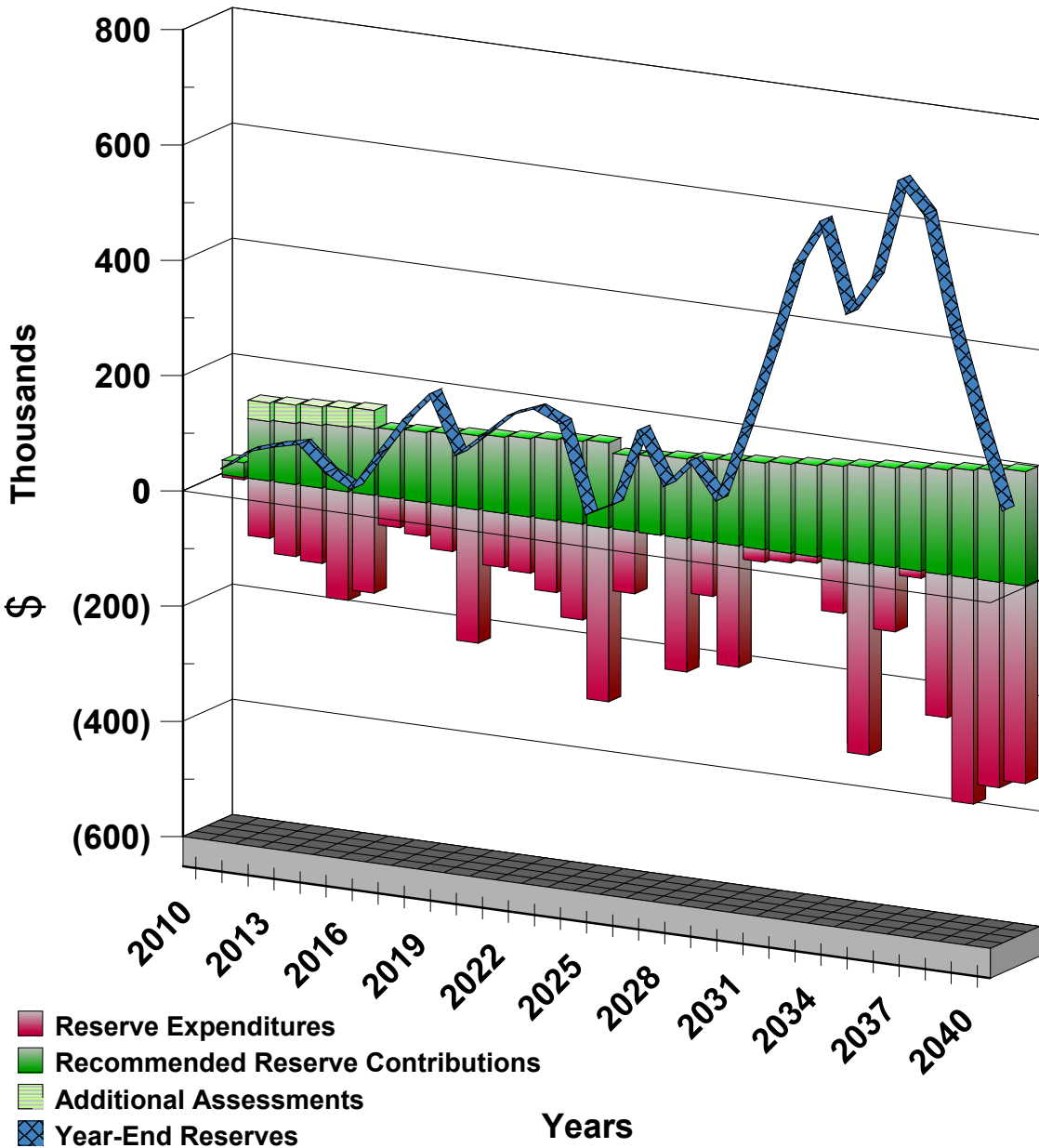
Explanatory Notes:

- 1) Year 2010 starting reserves are as of April 30, 2010; FY 2010 starts January 1 and ends December 31.
- 2) Reserve Contributions for 2010 are the remaining budgeted 8 months; 2011 is the first year of recommended contributions.
- 3) 1.8% is the weighted average annual rate of return on invested reserves; 2010 is a partial year of interest earned.
- 4) Threshold Funding Year (reserve balance at critical point).
- 5) Accumulated year 2040 ending reserves consider the age, size, overall condition and complexity of the property.

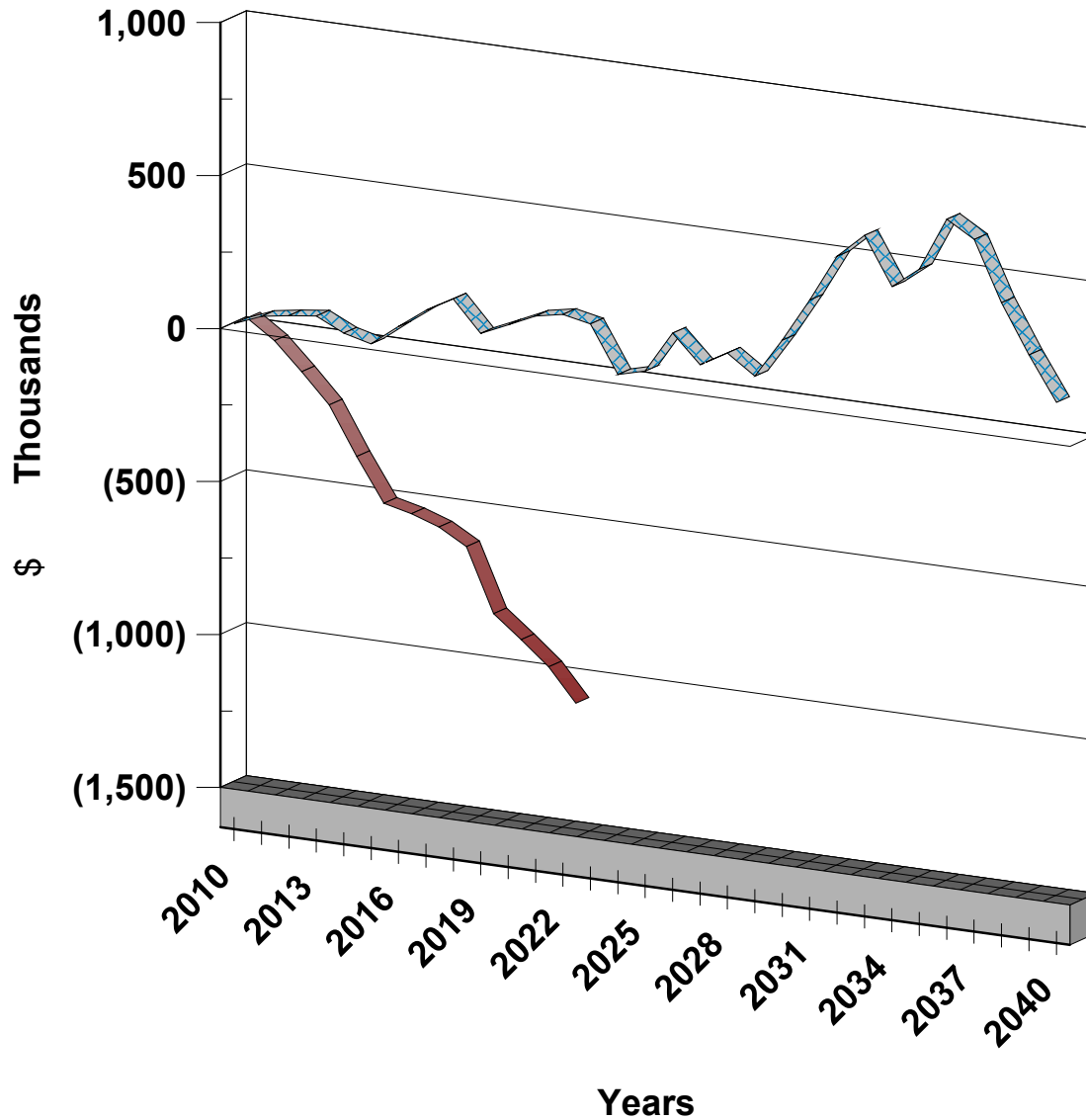
EXHIBIT C

RESERVE FUNDING GRAPHS

Recommended Reserve Funding Plan Lake McQueeney Las Brisas Homeowners Association



Reserve Balances Lake McQueeney Las Brisas Homeowners Association



- ▣ Year-End Reserve Balances Using Recommended Funding
- ▣ Potential Year-End Reserve Balances Using Historical Funding

Future Expenditures Relative Cost Illustration Lake McQueeney Las Brisas Homeowners Association

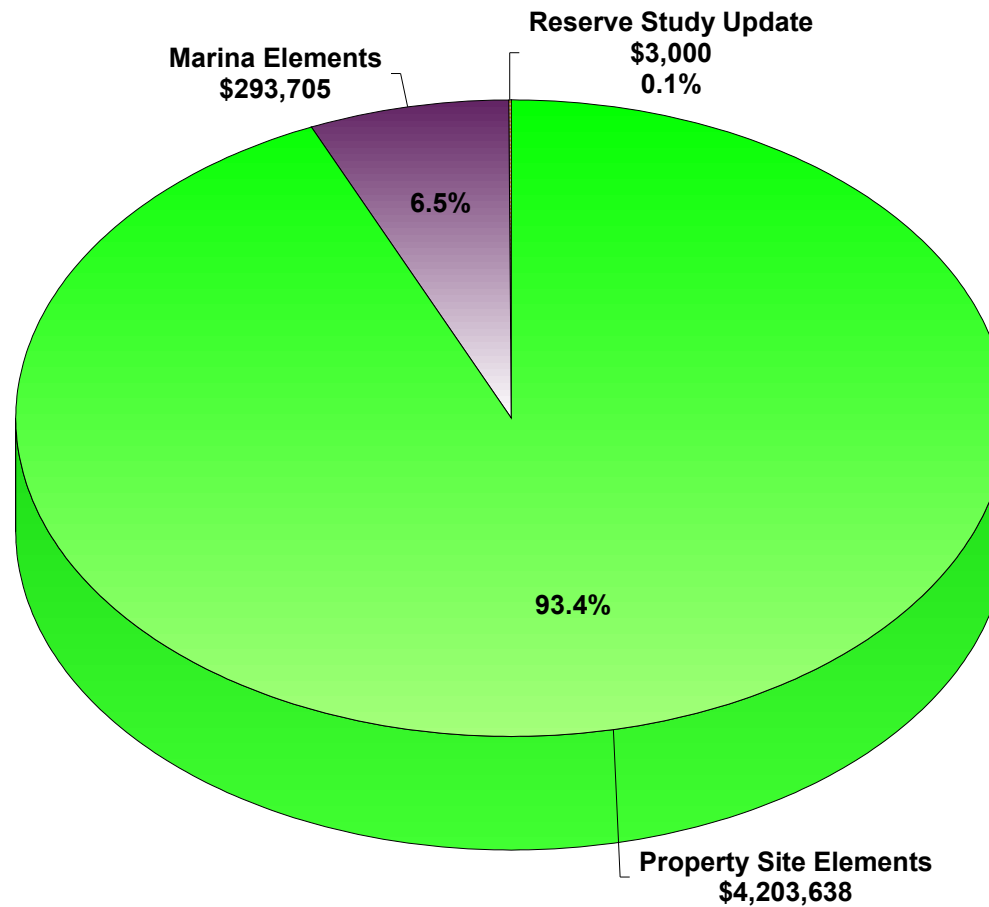


EXHIBIT D
ASSUMPTIONS
and
PROFESSIONAL SERVICE CONDITIONS

ASSUMPTIONS

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, we make no guarantee nor assume liability for the accuracy of any data, opinions, or estimates identified as furnished by others that we used in formulating this analysis.

We did not make any soil analysis or geological study with this report; nor were any water, oil, gas, coal, or other subsurface mineral and use rights or conditions investigated.

Substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, environmental mold or other potentially hazardous materials could, if present, adversely affect the validity of this study. Unless otherwise stated in this report, the existence of hazardous substance, that may or may not be present on or in the property, was not considered. Our opinions are predicated on the assumption that there are no hazardous materials on or in the property. We assume no responsibility for any such conditions. We are not qualified to detect such substances, quantify the impact, or develop the remedial cost.

We have made a visual inspection of the property and noted visible physical defects, if any, in our report. Our inspection and analysis was made by employees generally familiar with real estate and building construction; however, we did not do any invasive testing. Accordingly, we do not opine on, nor are we responsible for, the structural integrity of the property including its conformity to specific governmental code requirements, such as fire, building and safety, earthquake, and occupancy, or any physical defects that were not readily apparent during the inspection.

Our opinions of the remaining useful lives of the property elements do not represent a guarantee or warranty of performance of the products, materials and workmanship.

PROFESSIONAL SERVICE CONDITIONS

Our Services - Reserve Advisors, Inc. will perform its service as an independent contractor in accordance with our professional practice standards. Our compensation is not contingent upon our conclusions.

Our inspection and analysis of the subject property is limited to visual observations and is noninvasive. We will inspect sloped roofs from the ground. We will inspect flat roofs where safe access (stairs or ladder permanently attached to the structure) is available. Reserve Advisors does not investigate, nor assume any responsibility for any existence or impact of any hazardous materials, structural, latent or hidden defects which may or may not be present on or within the property. Our opinions of estimated costs and remaining useful lives are not a guarantee of the actual costs of replacement, a warranty of the property elements, or guarantee of remaining useful lives.

We assume, without independent verification, the accuracy of all data provided to us. You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, 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 we have relied upon as supplied by you or others under your direction, or which may result from any improper use or reliance on the report by you or third parties under your control or direction. Your obligation for indemnification and reimbursement shall extend to any controlling person of Reserve Advisors, Inc., including any director, officer, employee, affiliate, or agent. Liability of Reserve Advisors, Inc. and its employees, affiliates, and agents for errors and omissions, if any, in this work is limited to the amount of its compensation for the work performed in this engagement.

Report - Reserve Advisors, Inc. will complete this Study in accordance with the Proposal. In the event our service includes a Preliminary Report, we will consider any additional information made available to us in the interest of promptly issuing a Final Report to your satisfaction. However, the Preliminary Report represents a valid opinion of our findings and recommendations and is deemed complete and final if no Final Report or changes are requested within six months of our inspection. We retain the right to withhold the Preliminary or Final Reports if payment for services is not rendered in a timely manner. All files, work papers or documents developed by us during the course of the engagement remains our property.

Your Obligations - You agree to provide us access to the subject property during our on site visual inspection and tour. You will provide to us to the best of your ability and if reasonably available, historical and budgetary information, the governing documents, and other information that we request and deem necessary to complete our Study. You agree to abide by the payment schedule for our services in accordance with the Reserve Study Proposal.

Use of Our Report and Your Name - Use of our Report is limited to only the stated purpose stated herein. Any use or reliance for any other purpose, by you or third parties, is invalid. The Report in whole or part **is not and can not be used** as a *design specification, design engineering services or an appraisal*. You may show our report in its entirety to those third parties who need to review the information contained herein. You may show our report in its entirety to those third parties who need to review the information contained herein but can not reference our name or our report, in whole or in part, in any document prepared and/or distributed to third parties without our written consent. **This report** contains intellectual property developed by Reserve Advisors, Inc. specific to this engagement and **can not be reproduced or distributed to those who conduct reserve studies without the written consent of Reserve Advisors, Inc.**

We reserve the right to include your property's name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

EXHIBIT E
CREDENTIALS

CREDENTIALS

FIRM'S QUALIFICATIONS

HISTORY AND DEPTH OF SERVICE TO AMERICA

Founded in 1991, Reserve Advisors, Inc. is the leading provider of reserve studies and independent property consulting services, serving community associations, clubs, non-profit organizations, apartment building owners, religious institutions and educational facilities, office and commercial building owners, and other entities in over 40 states and Canada.

The **architectural engineering consulting firm** was formed to take a leadership role in helping fiduciaries, boards, and property managers manage their property like a business with a long range master plan known as a Reserve Study.

Reserve Advisors has the **largest staff of Reserve Specialists** with bachelors degrees in engineering dedicated to Reserve Study services. Our principals are founders of Community Associations Institute's (CAI) Reserve Committee. Also, one of our principals is a Past President of the Association of Professional Reserve Analysts (APRA). Our vast experience with a variety of building types and ages, on-site examination and a historical analyses are keys to our determining accurate remaining useful life estimates of building components.

No Conflict of Interest - As specialists, our **independent opinion** eliminates any real or perceived conflict of interest because we do not conduct or manage capital projects.

TOTAL STAFF INVOLVEMENT

Several staff members participate in each assignment. The responsible advisor involves the staff through a Peer Review, exclusive to Reserve Advisors, Inc., and by utilizing the experience of other staff gained from serving hundreds of other clients. A peer review is an internal quality assurance review of an assignment including the inspection, costing, lifing and technical report phases of the assignment. Each peer review requires the attendance of at least four staff including a Principal of the Firm, a Review Coordinator and other participatory peers. Due to our extensive experience with building components, we do not have a need to utilize subcontractors.

OUR GOAL

To help our clients fulfill their fiduciary responsibilities to maintain property in good condition.

VAST EXPERIENCE WITH A VARIETY OF BUILDINGS

Reserve Advisors, Inc. has conducted reserve studies for a variety of different communities and building types. Our clients include institutional governmental entities, master associations, clubs, schools and religious organizations. We've analyzed thousands of buildings, from as small as a 3,500 square-foot day care center to the 100-story John Hancock Center in Chicago. We also routinely inspect buildings with various types of mechanical systems such as simple electric heat, to complex systems with air handlers, chillers, boilers, elevators, and life safety security systems.

We're familiar with all types of building exteriors as well. Our well versed staff regularly identifies optimal repair and replacement solutions for such building exterior surfaces such as adobe, brick, stone, concrete, stucco, EIFS, wood products, stained glass and aluminum siding, and window wall systems.

OLD TO NEW

Reserve Advisors experience includes ornate and vintage buildings as well as modern structures. Our specialists are no strangers to older buildings. We're accustomed to addressing the unique challenges posed by buildings that date to the 1800's. We recognize and consider the methods of construction employed into our analysis. We recommend appropriate replacement programs that apply cost effective technologies while maintaining a building's character and appeal.

THEODORE J. SALGADO, P.E., PRA
Principal

CURRENT CLIENT SERVICES

Theodore J. Salgado is a co-founder of Reserve Advisors, Inc., which is dedicated to serving community associations, city and country clubs, religious organizations, educational facilities, and public and private entities throughout the United States. He is responsible for the production, management, review, and quality assurance of all reserve studies, defect identification transition studies, and consulting services for a nationwide portfolio of more than 4,000 clients. Under his direction, the firm conducts reserve study services for apartment complexes, churches, hotels, resorts, office towers and vintage architecturally ornate buildings.



PRIOR RELEVANT EXPERIENCE

Before founding Reserve Advisors, Inc. in 1991, Mr. Salgado, a professional engineer registered in the State of Wisconsin, served clients for over 15 years through American Appraisal Associates, the world's largest full service valuation firm. Mr. Salgado conducted facilities analyses of hospitals, steel mills and various other large manufacturing and petrochemical facilities and casinos.

He has served clients throughout the United States and in foreign countries, and frequently acted as project manager on complex valuation, and federal and state tax planning assignments. His valuation studies led to negotiated settlements on property tax disputes between municipalities and property owners.

Mr. Salgado has authored articles on the topic of reserve studies and facilities maintenance. He also co-authored "Reserves", an educational videotape produced by Reserve Advisors on the subject of Reserve Studies and maintaining appropriate reserves. Mr. Salgado has also written in-house computer applications manuals and taught techniques relating to valuation studies.

EXPERT WITNESS

Mr. Salgado has testified successfully before the Butler County Board of Tax Revisions in Ohio. His depositions in pretrial discovery proceedings relating to reserve studies of Crestview Estates Condominium Association in Wauconda, Illinois and the North Shore Club Associations in South Bend, Indiana have successfully assisted the parties in arriving at out of court settlements.

EDUCATION - Milwaukee School of Engineering - B.S. Architectural Engineering

PROFESSIONAL AFFILIATIONS/DESIGNATIONS

American Association of Cost Engineers - Past President, Wisconsin Section
Association of Construction Inspectors - Senior Designated Member and Certified Construction Inspector
Association of Professional Reserve Analysts - Past President, and Professional Reserve Analyst (PRA).
Community Associations Institute - Member and Volunteer Leader of multiple chapters throughout USA
Concordia Seminary, St. Louis - Member, National Steering Committee
Milwaukee School of Engineering - Member, Corporation Board
Professional Engineer, Wisconsin, Registered in 1982

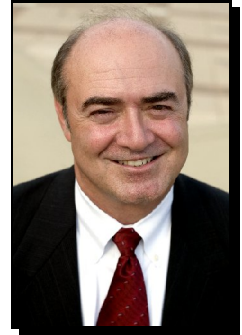
Reserve Advisors, Inc.

JOHN P. POEHLMANN, RS Principal

CURRENT CLIENT SERVICES

John P. Poehlmann is a co-founder of Reserve Advisors, Inc. He is responsible for the finance, accounting, marketing, and overall administration of Reserve Advisors, Inc. He also regularly participates in internal Quality Control Peer Reviews of Reserve Study reports.

Mr. Poehlmann directs corporate marketing, including advertising, press releases, conference exhibiting, and direct mail promotions. He frequently speaks throughout the country at seminars and workshops on the benefits of future planning and budgeting for capital repairs and replacements of building components and other assets.



Mr. Poehlmann served on the national Board of Trustees of Community Associations Institute. Community Associations Institute (CAI) is a national, nonprofit 501(c)(6) trade association created in 1973 to provide education and resources to America's nearly 286,000 residential condominium, cooperative and homeowner associations and related professionals and service providers. The Institute is dedicated to fostering vibrant, responsive, competent community associations that promote harmony, community, and responsible leadership.

He is a founding member of the Institute's Reserve Committee. The Reserve Committee developed national standards and the Reserve Specialist (RS) Designation Program for Reserve Study Providers. Mr. Poehlmann has authored numerous articles on the topic of Reserve Studies, including Planning for Replacement of Property Doesn't Have to Be Like a Trip to the Dentist, Reserve Studies for the First Time Buyer, Sound Association Planning Parallels Business Concepts, and Reserve Studies Minimize Liability. He has worked with a variety of publications, including the Chicago Tribune, The Milwaukee Journal/Sentinel, Common Ground, Common Interest, and Condo Management. He also co-authored "Reserves", an educational videotape produced by Reserve Advisors on the subject of Reserve Studies and the benefits of maintaining appropriate reserves. The videotape is available through Reserve Advisors or CAI's website, www.caionline.org. It is also available in all libraries in the State of Virginia.

INDUSTRY SERVICE AWARDS

CAI National Rising Star Award, 2002 - To an individual whose leadership abilities and professional contributions have earmarked them for even greater accomplishments in the future.

CAI Michigan Chapter Award, 2003 - "Given to the individual who contributed their time, expertise, and resources toward improving the quality of services offered by the chapter. Mr. Poehlmann was unanimously selected as the winner of the 2002 CAI Michigan Chapter Award."

EDUCATION

University of Wisconsin-Milwaukee - Master of Science;
University of Wisconsin - Bachelor of Business Administration

PROFESSIONAL AFFILIATIONS

Community Associations Institute (CAI): Founding member of Reserve Committee; Reserve Specialist (RS) designation; Member of multiple chapters
Association of Condominium, Townhouse, & Homeowners Associations (ACTHA), member
United Condominium Owners of Michigan (UCOM), member

QUALIFICATIONS
HEATHER A. FRANCK, RS
Responsible Advisor

CURRENT CLIENT SERVICES

Heather A. Franck, an Architectural Engineer, is an Advisor for *Reserve Advisors, Inc.* Ms. Franck is responsible for the inspection and analysis of the condition of clients' properties, and recommending engineering solutions to prolong the lives of the components. She also forecasts capital expenditures for the repair and/or replacement of the property components and prepares technical reports on assignments. She is responsible for conducting Life Cycle Cost Analysis and Capital Replacement Forecast on apartments style condominiums, townhomes, planned unit developments and commercial office parks. Ms. Franck frequently participates in Quality Assurance Review Meetings to ensure adequacy in each prepared report. Ms. Franck is fully versed in *Reserve Studies* and *Property Insurance Advisory Studies*.

The following is a partial list of clients served by Heather Franck demonstrating her breadth of experiential knowledge of community associations in construction and related buildings systems.

Eagle Creek Homeowners Association This planned unit development, currently under construction, is located in Orlando, Florida. Construction began in 2005 and features common elements shared by the proposed 1,433 single family homes and the 144 townhome units within nine buildings. The townhome buildings include sloped clay tile roofs, EIFS walls with veneer insets. The community contains asphalt pavement street with brick paver inlay, gatehouse, seven ponds, a vehicular bridge, pool and cabana.

Waterford at Vanderbilt Condominium Association Located in Naples, Florida, this three story apartment style condominium development contains 240 units in 10 buildings. The buildings feature concrete breezeways, elevators, tile roofs assemblies and stucco exterior walls. The property contains asphalt pavement, carports and concrete parking areas.

Misty Waters on Lake Wylie Homeowners Association A planned urban development of 45 luxury single family homes located in Belmont, North Carolina. This community includes a clubhouse, interior finishes, marina, pool, asphalt pavement streets and gated entry.

Palm Coast Plantation Homeowners Association Located in Palm Coast, Florida, this planned urban development contains 634 single family homes. Recreational facilities and improvements comprise a clubhouse including fitness center, basketball, shuffleboard, and tennis courts, playground equipment, pool and recreational vehicle parking lot. The property includes asphalt pavement streets with brick paver inlay, concrete flatwork, irrigation and filtration system and 23 ponds.

Ranchero Village Co-op, Inc. This 946 unit, manufactured home park is located in Largo, Florida. This development features clubhouses, a recreational hall, sloped and flat roof assemblies, stucco walls with veneer insets, multiple pools and recreational courts.

Perimeter Park Phase II Office Center Located in Jacksonville, Florida, this office park contains 42 tenants in 12 buildings. The buildings feature sloped asphalt shingle roof assemblies with masonry siding. The property contains concrete flatwork including an access driveway, curbs and sidewalks.

PRIOR RELEVANT EXPERIENCE

Before joining Reserve Advisors, Inc., Ms. Franck was a Project Manager and Designer for X-nth, an engineering consulting firm. As a Designer, she was responsible for the design and drafting of mechanical and plumbing systems in accordance with all applicable codes while determining the most cost effective means of installation and energy efficient equipment selection. While in the role of Project Manager, she was responsible for coordinating and hosting team meetings, monitoring project fee and time spent, compiling relevant project data for delivery and ensuring a positive client interaction with the company.

EDUCATION

Milwaukee School of Engineering - B.S. Architectural Engineering

PROFESSIONAL AFFILIATIONS

Reserve Specialist (RS) - Community Associations Institute

Reserve Advisors, Inc.

QUALIFICATIONS Jason P. Kubus, RS, E.I.T. Quality Assurance Review Coordinator

CURRENT CLIENT SERVICES

Jason P. Kubus, a Civil engineer, is an Advisor for *Reserve Advisors, Inc.* Mr. Kubus is responsible for the inspection and analysis of the condition of clients' properties, and recommending engineering solutions to prolong the lives of the components. He also forecasts capital expenditures for the repair and/or replacement of the property components and prepares technical reports on assignments. He is responsible for conducting Life Cycle Cost Analyses and Capital Replacement Forecast services and the preparation of Reserve Study Reports for apartments, condominiums, townhomes, high rise condominium towers, homeowner associations and private clubs. Mr. Kubus frequently serves as the *Quality Assurance Review Coordinator* for Multi-Story, Recreational and Townhome Communities. Jason Kubus is fully versed in *Reserve Studies* and *Property Insurance Advisory Studies*.

The following is a partial list of clients served by Jason Kubus demonstrating his breadth of experiential knowledge of community associations in construction and related buildings systems.

Four Seasons Hotel and Tower A 70-story high rise condominium and hotel of 491 luxury units. Located in Miami, Florida, this all-inclusive condominium includes hotel, office and retail spaces, a fitness center, rooftop pools and a parking garage.

Lessina at Hammock Bay A 20-story high rise condominium of 116 luxury units. Located in Naples, Florida, this all-inclusive condominium includes a fitness center, pool and parking garage.

Governors Club A private golf and country club located in Chapel Hill, North Carolina. Governors Club offers a decorative clubhouse, a 27-hole Jack Nicklaus signature golf course, tennis, wellness and maintenance facilities, golf course maintenance equipment and a pool area.

Mayacama Golf Club A private golf and country club located in Santa Rosa, California. Mayacama offers a decorative clubhouse, guest villas and casitas, an 18-hole Jack Nicklaus signature golf course, tennis, wellness and maintenance facilities, golf course maintenance equipment and a pool area.

Addison Reserve Country Club - A private golf and country club located in Delray Beach, Florida. Addison Reserve offers a decorative clubhouse and new esplanade building, three 9-hole Arthur Hills signature golf courses, tennis, wellness and maintenance facilities, golf course maintenance equipment and a pool area.

Pelican Bay Foundation - Community of 7,168 single family homes and high rise condominiums located in Naples, Florida. Pelican Bay contains an administrative commons building, a community center and spa, two beach front dining and recreational facilities, tennis and wellness facilities, a community-owned apartment building, two parks and various site infrastructure.

Savanna Club Community of 1,876 single family homes located in Port Saint Lucie, Florida. The community contains three clubhouses, including a 700-seat stage theater, pools, retention ponds, an 18-hole golf course, a wastewater treatment plant and various site infrastructure.

Wynmoor Community of 5,260 apartment-style condominium units in 150 buildings located in Coconut Creek, Florida. The community contains a 43,000 square foot clubhouse, administration and fitness centers, theater, maintenance and tennis complexes, an 18-hole golf course, three pools, numerous vehicles and maintenance equipment.

PRIOR RELEVANT EXPERIENCE

Before joining Reserve Advisors, Inc., Mr. Kubus successfully completed the bachelors program in Civil Engineering from the University of Florida where he specialized in Structural Engineering. He also worked in the design of mechanical, plumbing and fire protection systems.

EDUCATION - University of Florida - B.S. Civil Engineering

PROFESSIONAL AFFILIATIONS / DESIGNATIONS

Engineer In Training (E.I.T.) Registration - Florida 2006

Reserve Specialist (RS) - Community Associations Institute

RESOURCES WE USE IN OUR ANALYSIS

Reserve Advisors, Inc. utilizes numerous resources of national and local data to conduct its Professional Services. A concise list of several of these resources follows.

Association of Construction Inspectors, (ACI) the largest professional organization for those involved in construction inspection and construction project management. ACI is also the leading association providing standards, guidelines, regulations, education, training, and professional recognition in a field that has quickly become important procedure for both residential and commercial construction, found on the web at <http://www.iami.org>. Several advisors and a Principal of Reserve Advisors, Inc. hold Senior Memberships with ACI.

ASHRAE, the American Society of Heating, Refrigerating and Air-Conditioning Engineers, Inc., devoted to the arts and sciences of heating, ventilation, air conditioning and refrigeration; recognized as the foremost, authoritative, timely and responsive source of technical and educational information, standards and guidelines, found on the web at <http://www.ashrae.org>. Reserve Advisors, Inc. actively participates in its local chapter and holds individual memberships.

Community Associations Institute, America's leading advocate for responsible communities noted as the only national organization dedicated to fostering vibrant, responsive, competent community associations. Their mission is to assist community associations in promoting harmony, community, and responsible leadership.

Marshall & Swift / Boeckh (MS/B), the worldwide provider of building cost data, co-sourcing solutions, and estimating technology for the property and casualty insurance industry found on the web at <http://www.msbinfo.com>

R.S. Means CostWorks, North America's leading supplier of construction cost information. As a member of the Construction Market Data Group, Means provides accurate and up-to-date cost information that helps owners developers, architects, engineers, contractors and others to carefully and precisely project and control the cost of both new building construction and renovation projects found on the web at <http://www.rsmeans.com>

Reserve Advisors, Inc. library of numerous periodicals relating to reserve studies, condition analyses, chapter community associations, and historical costs from thousands of capital repair and replacement projects, and product literature from manufacturers of building products and building systems.