RESERVE DATA ANALYSIS, INC.

2761 E. Bridgeport Parkway
Gilbert, AZ 85295
Office (480) 473-7643
Fax (480) 473-7658
rdaarizona@aol.com

March 4, 2008

Ms. Kathy Rosko
Colina Del Norte
c/o Cuellar Realty Services
1625 E. Northern Ave. #200
Phoenix, AZ 85020

Dear Ms. Rosko:

Enclosed is the revised reserve analysis study for Colina Del Norte for the fiscal year beginning January 1, 2008. Your **RDA REPORT** is presented in two parts:

Part 1 offers an easy-to-understand introduction to reserve budgeting and terminology along with a Users' Guide to your reserve analysis study.

Part 2 is your reserve analysis study, including a report summary, a distribution of accumulated reserves, detail reports for each asset, 30-year projections, and an alphabetical detail report index.

Please pay particular attention to the *"DETAIL REPORT BY CATEGORY"* section of the report. See the *Table of Contents* for the page number corresponding to the first page of this section. Most, if not all, of your questions will be answered by thoroughly reviewing the detailed information and remarks for each asset.

To assist you in distribution to the Board and/or community membership we have emailed a PDF version (electronic copy) of the reserve study to you.

We hope that you find our report format both informative and useful. Should you desire, any or all of the parameters and data used in your reserve study may be changed and a revised study prepared. All of us at RDA have enjoyed serving you and providing Colina Del Norte with the most detailed, comprehensive and useful reserve analysis study available. If you have any additional questions or comments, please feel free to call us.

Thank you.

Tom Thompson, Jr.
Vice President

RDA REPORT

Colina Del Norte
Cave Creek, Arizona
Account 1389 - Version 006
March 3, 2008

RESERVE DATA ANALYSIS, INC.
2761 East Bridgeport Parkway
Gilbert, Arizona 85295
FAX (480) 473-7658
(480) 473-7643

Prepared By

Tom Thompson Jr.

Please Note

This document has been provided pursuant to an agreement containing restrictions on its use. No part of this document may be copied or distributed, in any form or by any means, nor disclosed to third parties without the express written permission of Reserve Data Analysis, Inc., until it has been paid for in full. The Client shall have the right to reproduce and distribute copies of this report, or the information contained within, as may be required for compliance with all applicable regulations.

This reserve analysis study and the parameters under which it has been completed are based upon information provided to us in part by representatives of the association, its contractors, assorted vendors, specialist and independent contractors, the Community Associations Institute, various construction pricing and scheduling manuals including, but not limited to: Marshall & Swift Valuation Service, RS Means Facilities Maintenance & Repair Cost Data, RS Means Repair & Remodeling Cost Data, National Construction Estimator, National Repair & Remodel Estimator, Dodge Cost Manual and the McGraw Hill Book Company. Additionally, costs are obtained from numerous vendor catalogues, actual quotations or historical costs, and our own experience in the field of property management and preparation of reserve analysis studies.

It has been assumed, unless otherwise noted in this report, that all assets have been designed and constructed properly and each estimated useful life will approximate that of the norm per industry standards and/or manufacture specifications used. In some cases, estimates may have been used on assets which have an indeterminable but potential liability to the association. The decision for the inclusion of these as well as all assets considered is left to the client.

We recommend that your reserve analysis study be updated every two to three years due to fluctuating interest rates, inflationary changes and the unpredictable nature of the lives of many of the assets under consideration. All of the information collected during our inspection of the association and subsequent computations made in preparing this reserve analysis study are retained in our computer files. Therefore, updates can typically be completed in a more timely manner than the original study.

Reserve Data Analysis, Inc. would like to thank you for using our services, and we invite you to call us at any time should you have any questions or comments or need assistance. In addition, any of the parameters and estimates used in this study may be changed at your request, after which we will provide you with a revised study.

RESERVE DATA ANALYSIS, INC.

(480) 473-7643

TABLE OF CONTENTS

PART I - INTRODUCTION

Preparing the annual budget and overseeing the association's finances are perhaps the most important responsibilities of board members. The annual operating and reserve budgets reflect the planning and goals of the association and set the level and quality of service for all of the association's activities.

■ 1. Funding Options

When a major repair or replacement is required in a community, an association has essentially four options available to address the expenditure:

The first option is to pass a "special assessment" to the membership in an amount required to cover the expenditure. Although not commonplace, there have been special assessments in the amount of $10,000 per member assessed in associations in Virginia and southern California. When a special assessment is passed, the association has the authority and responsibility to collect the assessments, even by means of foreclosure if necessary. However, an association operating on a special assessment basis cannot guarantee that an assessment, when needed, will be passed. Consequently, it cannot guarantee its ability to perform the required repairs or replacements to those major components for which the association is obligated to maintain when the need arises. Additionally, while relatively new communities require very little in the way of major "reserve" expenditures, associations reaching 12 to 15 years of age and older find many components reaching the end of their effective useful lives. These required expenditures, all accruing at the same time, can be devastating to an association's overall budget.

The second option is for the association to acquire a loan from a lending institution in order to effect the required repairs. In many cases, banks will lend money to an association using "future homeowner assessments" as collateral for the loan. With this method, not only is the current board of directors pledging the future assets of an association, they are also required to pay interest fees on the loan payback in addition to the original principal. In the case of a $150,000 roofing replacement, the association may be required to pay back the loan over a three to five year period, with interest; whereas, if the association was setting aside reserves for this purpose, using the

vehicle of the regularly assessed membership dues, it would have had the full term of the life of the roof in order to accumulate the necessary moneys. Additionally, those contributions would have been evenly distributed over the entire membership and would have earned interest as part of that contribution.

The third option, too often used, is simply to defer the required repair or replacement. This option can create an environment of declining property values due to the increasing deferred maintenance and the association's financial inability to keep pace with the normal aging process of the common area components. This, in turn, can have a seriously negative impact on sellers in the Association by making it difficult or even impossible for potential buyers to obtain financing from lenders. Increasingly, many lending institutions are requesting copies of the association's most recent reserve study before granting loans, either for the association, a prospective purchaser, or for an individual within such association.

The fourth, and only logical means that the board of directors has to ensure its ability to maintain the assets for which it is obligated, uniformly distributing the costs of the replacements over the entire membership, is by assessing an adequate level of reserves as part of the regular membership assessment. The community is not only comprised of present members, but also future members. Any decision by the board of directors to adopt a calculation method or funding plan which would disproportionately burden future members in order to make up for past reserve deficits would be a breach of its fiduciary responsibility to those future members. Unlike individuals determining their own course of action, the board is responsible to the "community" as a whole.

■ 2. The Reserve Study

There are two components of a reserve study – a physical analysis and a financial analysis. During the physical analysis, a reserve provider evaluates information regarding the physical status and repair/replacement cost of the association's major common area components. To do so, the provider conducts a component inventory, a condition assessment, and life and valuation estimates. A financial analysis assesses the association's reserve balance or "fund status" (measured in cash or as percent funded) to determine a recommendation for an appropriate reserve contribution rate in the future known as the "funding plan."

Reserve studies fit into one of three categories: 1) Full Study; 2) Update - with site inspection; and 3) Update - without site inspection.

- In a Full reserve study, the reserve provider conducts a component inventory, a condition assessment (based upon on-site visual observations), and life and valuation estimates to determine both a "fund status" and "funding plan."

- In an Update – with site inspection, the reserve provider conducts a component inventory (verification only, not quantification), a condition assessment (based on on-site visual observations), and life and valuation estimates to determine both the "fund status" and "funding plan."

- In an Update – without site inspection, the reserve provider conducts life and valuation estimates to determine the "fund status" and "funding plan."

■ 3. Developing a Component List

The budget process begins with an accurate inventory of all the major components for which the association is responsible. The determination of whether an expense should be labeled as operational, reserve, or excluded altogether is sometimes subjective. Since this labeling may have a major impact on the financial plans of the association, subjective determinations should be minimized. We suggest the following considerations when labeling an expense:

OPERATIONAL EXPENSES occur at least annually, no matter how large the expense, and can be effectively budgeted for each year. They are characterized as being reasonably predictable both in terms of frequency and cost. Operational expenses include all minor expenses which would not otherwise adversely affect an operational budget from one year to the next. Examples of Operational Expenses include:

Utilities:

- Electricity
- Gas
- Water
- Telephone
- Cable TV

Services:

- Landscaping
- Pool Maintenance
- Street Sweeping
- Accounting
- Reserve Study

Administrative:

- Supplies
- Bank Service Charges
- Dues & Publications
- Licenses, Permits & Fees

Repair Expenses:

- Tile Roof Repairs
- Equipment Repairs
- Minor Concrete Repairs
- Operating Contingency

RESERVE EXPENSES are major expenses that occur other than annually and which must be budgeted for in advance in order to provide the necessary funds in time

for their occurrence. Reserve expenses are reasonably predictable both in terms of frequency and cost. However, they may include significant assets which have an indeterminable but potential liability which may be demonstrated as a likely occurrence. They are expenses that when incurred would have a significant affect on the smooth operation of the budgetary process from one year to the next if they were not reserved for in advance. Examples of Reserve Expenses include:

- Roof Replacements
- Painting
- Deck Resurfacing
- Fencing Replacement
- Street Slurry Coating
- Asphalt Overlays
- Pool Re-plastering
- Pool Equipment Replacement
- Pool Furniture Replacement
- Tennis Court Resurfacing
- Park & Play Equipment
- Equipment Replacement
- Interior Furnishings
- Lighting Replacement

BUDGETING IS NORMALLY EXCLUDED FOR repairs or replacements of assets which are deemed to have an estimated useful life equal to or exceeding the estimated useful life of the facility or community itself, or exceeding the legal life of the community as defined in an association's governing documents. Examples include the complete replacement of elevators, tile roofs, wiring and plumbing. Also excluded are insignificant expenses which may be covered either by an operating or reserve contingency, or otherwise in a general maintenance fund. Costs which are caused by acts of God, accidents or other occurrences which are more properly insured for, rather than reserved for, are also excluded.

■ 4. Preparing the Reserve Study

Once the reserve assets have been identified and quantified, their respective replacement costs, useful lives and remaining lives must be assigned so that a funding schedule can be constructed. Replacement costs and useful lives can be found in published manuals such as construction estimators, appraisal handbooks, and valuation guides. Remaining lives are calculated from the useful lives and ages of assets and adjusted according to conditions such as design, manufacture quality, usage, exposure to the elements and maintenance history.

By following the recommendations of an effective reserve study the association should avoid any major shortfalls. However, to remain accurate, the report should be updated every two to three years to reflect such changes as shifts in economic parameters, additions of phases or assets, or expenditures of reserve funds. The association can assist in simplifying the reserve analysis update process by keeping accurate records of these changes throughout the year.

■ 5. Funding Methods

From the simplest to most complex, reserve analysis providers use many different computational processes to calculate reserve requirements. However, there are two basic processes identified as industry standards: the cash-flow method and the component method.

The cash flow method develops a reserve-funding plan where contributions to the reserve fund are designed to offset the variable annual expenditures from the reserve fund. Different reserve funding plans are tested against the actual anticipated schedule of reserve expenses until the desired funding goal is achieved. This method sets up a "window" in which all future anticipated replacement costs are computed, based on the individual lives of the components under consideration.

The component method develops a reserve-funding plan where the total contribution is based on the sum of contributions for individual components. The component method is the more conservative of the two funding options, and assures that the association will achieve and maintain an ideal level of reserves over time. This method also allows for computations on individual components in the analysis. The RDA Summary and RDA Projection Reports are based upon the component methodology.

■ 6. Funding Strategies

Once an association has established its funding goals, the association can select an appropriate funding plan. There are two basic strategies widely used by associations. It is recommended that associations consult professionals to determine the best strategy or combination of plans that best suit the association's need. Additionally, associations should consult with their financial advisor to determine the tax implications of selecting a particular plan. Further, consultation with the American Institute of Certified Public Accountants (AICPA) for their reporting requirements is advisable. The two funding plans and descriptions of both are detailed below.

• Full Funding — Given that the basis of funding for reserves is to distribute the costs of the replacements over the lives of the components in question, it follows that the ideal level of reserves would be proportionately related to those lives and costs. If an association has a component with an expected estimated useful life of ten years, it would set aside approximately one-tenth of the replacement cost each year. At the end of three years, one would expect that three-tenths of the replacement cost to have accumulated, and if so, that component would be "fully-funded." This model is

important in that it is a measure of the adequacy of an association's reserves at any one point of time, and is independent of any particular method which may have been used for past funding or may be under consideration for future funding. The formula is based on current replacement cost, and is a measure in time, independent of future inflationary or investment factors:

$$\text{Fully Funded Reserves} = \frac{\text{Age of Component}}{\text{Useful Life}} \times \text{Current Replacement Cost}$$

When an association's total accumulated reserves for all components meet this criteria, its reserves are "fully-funded."

• Threshold Funding (RDA Modified Cash Flow Reports) — There are two goals of this funding method. The first goal is to make sure that all scheduled reserve expenditures are covered by keeping the reserve cash balance above zero during the projected period. The second goal is to reach and maintain a 100% fully funded reserve balance during the projected period. Depending on the association's current percent funded, it may take the entire projected period (typically 30 years) before the 100% fully funded level is achieved.

Reaching and maintaining a 100% fully funded reserve balance by uniformly distributing the costs of the replacements over time benefits both current and future members of an association, and is the best approach the board of directors can take to fulfill its fiduciary responsibility. The modified cash flow method creates a funding strategy that gives the membership the lowest reserve funding recommendation as possible over time, while approaching the 100% fully funded level.

Another advantage of the modified cash flow method is that in most cases several strategies can be manually tested by Reserve Data Analysis, Inc. (the strategy is not based strictly on each components current funding status) until the best funding strategy is created – one that has consistent, incremental contribution increases from year to year. This very important aspect of the reserve study will aid the board of directors during the annual budgeting process.

■ 7. Distribution of Accumulated Reserves

The "Distribution of Accumulated Reserves Report" can be viewed and printed after performing the "RDA Summary Calculations," which is a "Component or Segregated Calculation Process," as opposed to the "Cash Flow Calculation Process," also available to the user in the program.

When calculating reserves based upon the component methodology, a beginning reserve balance must be allocated for each of the individual components considered in the analysis before the individual calculations can be completed. When this distribution is not available, or of sufficient detail, the following method is suggested for allocating reserves:

The first step the program performs in this process is subtracting, from the total accumulated reserves, any amounts for assets which have predetermined (fixed) reserve balances. The user can "fix" the accumulated reserve balance within the program on the individual asset's detail page. If by error these amounts total more than the amount of funds available, then the remaining assets are adjusted accordingly. A provision for a contingency reserve is then deducted by the determined percentage used, and if there are sufficient remaining funds available.

The second step is to identify the ideal level of reserves for each asset. As indicated in the prior section, this is accomplished by evaluating the component's age proportionate to its estimated useful life and current replacement cost. Again, the equation used is as follows:

$$\text{Fully Funded Reserves} = \frac{\text{Age of Component}}{\text{Useful Life}} \times \text{Current Replacement Cost}$$

The RDA RESERVE MANAGEMENT SOFTWARE™ program performs the above calculations to the very month the component was placed-in-service. It also allows for the accumulation of the necessary reserves for the replacement to be available on the first day of the fiscal year it is scheduled to be replaced.

The next step the program performs is to arrange all of the assets used in the study in ascending order by remaining life, and alphabetically within each grouping of remaining life items. These assets are then assigned their respective ideal level of reserves until the amount of funds available are depleted, or until all assets are appropriately funded. If any assets are assigned a zero remaining life (schedule for replacement this fiscal year), then the amount assigned equals the current replacement cost and funding begins for the next cycle of replacement. If there are insufficient funds available to accomplish this, then the software automatically adjusts the zero remaining life item to 1 year and that asset assumes its new grouping position alphabetically in the final printed report.

If at the completion of this task there are additional moneys which have not been distributed, the remaining reserves are then assigned, in ascending order, to a level equal to, but not exceeding, the current replacement cost for each component. If there are sufficient moneys available to fund all assets at their current replacement cost levels, then any excess funds are designated as such initially, but are then considered to be available reserves in the report funding computations.

Assigning the reserves in this manner defers the make-up period for any underfunding over the longest remaining life of all the assets under consideration, thereby minimizing the impact of deficiency. For example, if the report indicates an underfunding of $50,000, this underfunding will be assigned to components with the longest remaining life possible in order to give more time to "replenish" the account. If the $50,000 underfunding were to be assigned to short remaining life items, the impact would be immediately felt.

If the reserves are underfunded, the monthly contribution requirements as outlined in this report can be expected to be higher than normal. In future years, as individual assets are replaced, the funding requirements will return to their normal levels. In the case of a large deficiency, a special assessment may be considered. The program can easily generate revised reports outlining how the monthly contributions would be affected by such an adjustment, or by any other changes which may be under consideration.

■ 8. Funding Reserves

Two contribution numbers are provided in the report, the "Monthly Membership Contribution" and the "Net Monthly Allocation." The association should contribute to reserves each month the "Monthly Membership Contribution" figure, when the interest earned on the reserves is left in the reserve accounts as part of the contribution. When interest is earned on the reserves, that interest must be left in reserves and only amounts set aside for taxes should be removed.

The second alternative is to allocate the "Net Monthly Allocation" to reserves (this is the member contribution plus the anticipated interest earned for the fiscal year). This method assumes that all interest earned will be assigned directly as operating income. This allocation takes into consideration the anticipated interest earned on accumulated reserves regardless of whether or not it is actually earned. When taxes are paid the amount due will be taken directly from the association's operating accounts as the reserve accounts are allocated only those moneys net of taxes.

■ 9. Users' Guide to Your Reserve Analysis Study

Part II of your RDA REPORT contains the reserve analysis study for your association. There are seven types of pages in the study as described below.

REPORT SUMMARY

The ***Report Summary*** lists all of the parameters which were used in calculating the report as well as the summary of your reserve analysis study.

INDEX REPORTS

The ***Distribution of Accumulated Reserves*** report lists all assets in remaining life order. It also identifies the ideal level of reserves which should have accumulated for the association as well as the actual reserves available.

The ***Asset Listing/Summary*** lists all assets by category (i.e. roofing, painting, lighting, etc.) together with their remaining life, current cost, monthly reserve contribution, and net monthly allocation.

DETAIL REPORTS

The ***Detail Report*** itemizes each asset and lists all measurements, current and future costs and calculations for that asset. Provisions for percentage replacements, salvage values and one-time replacements can also be utilized.

The numerical listings for each asset are enhanced by extensive narrative detailing factors such as design, manufacture quality, usage, exposure to elements and maintenance history.

The ***Detail Report Index*** is an alphabetical listing of all assets together with the page number of the asset's detail report and asset number.

PROJECTIONS AND CHARTS

Thirty-year Projections as well as ***Charts and Graphs*** of projected data add to the usefulness of your reserve analysis study.

■ 10. Definitions

REPORT I.D. - Includes the REPORT DATE (ex. November 15, 1992), VERSION (ex. 001), and ACCOUNT NUMBER (ex. 9773). Please use this information when referencing your report. (Displayed on the summary page.)

BUDGET YEAR BEGINNING/ENDING - The budgetary year for which the report is prepared. For associations with fiscal years ending December 31, the monthly contribution figures indicated are for the 12 month period beginning 1/1/2X and ending 12/31/2X.

NUMBER OF UNITS/PHASES - If applicable, the number of units and/or phases included in this version of the report.

INFLATION - This figure is used to approximate the future cost to repair or replace each component in the report. The current cost for each component is compounded on an annual basis by the number of remaining years to replacement and the total is used in calculating the monthly reserve contribution which will be necessary in order to accumulate the required funds in time for replacement.

ANNUAL CONTRIBUTION INCREASE - The percentage rate at which the association will increase its contribution to reserves at the end of each year until the year in which the asset is replaced. For example, in order to accumulate $10,000 in 10 years, you could set aside $1,000 per year. As an alternative, you could set aside $795 the first year and increase that amount by 5% each year until the year of replacement. In either case you arrive at the same amount. The idea is that you start setting aside a lower amount and increase that number each year in accordance with the planned percentage. Ideally this figure should be equal to the rate of inflation. It can, however, be used to aid those associations that have not set aside appropriate reserves in the past by making the initial year's allocation less formidable.

INVESTMENT YIELD - The average interest rate anticipated by the association based upon its current investment practices.

TAXES ON YIELD - The estimated percentage of interest income which will be set aside for taxes.

ACCUMULATED RESERVE BALANCE - The anticipated reserve balance on the first day of the fiscal year for which this report has been prepared. Based upon information provided and not audited.

PERCENT FULLY FUNDED - The ratio, at the beginning of the fiscal year, of the actual (or projected) reserve balance to the calculated fully funded balance, expressed as a percentage.

PHASE INCREMENT DETAIL/AGE - Comments regarding aging of the components on the basis of construction date or date of acceptance by the association.

MONTHLY CONTRIBUTION - The contribution to reserves required by the association each month.

INTEREST CONTRIBUTION - The interest that should be earned on the reserves, net of taxes, based upon their beginning reserve balance and monthly contributions for one year. This figure is averaged for budgeting purposes.

NET MONTHLY ALLOCATION - The sum of the monthly contribution and interest contribution figures.

GROUP OR FACILITY NUMBER/CATEGORY NUMBER - The report may be prepared and sorted either by group or facility (location, building, phase, etc.) or by category (roofing, painting, etc.). Standard report printing format is by category.

PERCENTAGE OF REPLACEMENT - In some cases, an asset may not be replaced in its entirety or the cost may be shared with a second party. Examples are budgeting for a percentage of replacement of streets over a period of time, or sharing the expense to replace a common wall with a neighboring party.

PLACED-IN-SERVICE - The month and year that the asset was placed-in-service. - This may be the construction date, the first escrow closure date in a given phase, or the date of the last servicing or replacement.

ESTIMATED USEFUL LIFE - The estimated useful life of an asset based upon industry standards, manufacturer specifications, visual inspection, location, usage, association standards and prior history. All of these factors are taken into consideration when tailoring the estimated useful life to the particular asset. For example, the carpeting in a hallway or elevator (a heavy traffic area) will not have the same life as the identical carpeting in a seldom-used meeting room or office.

ADJUSTMENT TO USEFUL LIFE - Once the useful life is determined it may be adjusted +/- by this separate figure for the current cycle of replacement. This will allow for a current period adjustment without affecting the estimated replacement cycles for future replacements.

ESTIMATED REMAINING LIFE - This calculation is completed internally based upon the report's fiscal year date and the date the asset was placed-in-service.

REPLACEMENT YEAR - The year that the asset is scheduled to be replaced. The appropriate funds will be available by the first day of the fiscal year for which replacement is anticipated.

FIXED ACCUMULATED RESERVES - An optional figure which, if used, will override the normal process of allocating reserves to each asset.

FIXED MONTHLY CONTRIBUTION - An optional figure which, if used, will override all calculations and set the contribution at this amount.

SALVAGE VALUE - The salvage value of the asset at the time of replacement, if applicable.

ONE-TIME REPLACEMENT - Notation if the asset is to be replaced on a one-time basis.

CURRENT REPLACEMENT COST - The estimated replacement cost effective as of the beginning of the fiscal year for which the report is being prepared.

FUTURE REPLACEMENT COST - The estimated cost to repair or replace the asset at the end of its estimated useful life based upon the current replacement cost and inflation.

COMPONENT INVENTORY - The task of selecting and quantifying reserve components. This task can be accomplished through on-site visual observations, review of association design and organizational documents, a review of established association precedents and discussion with appropriate association representative(s).

■ 11. A Multi-Purpose Tool

Your RDA REPORT is an important part of your association's budgetary process. Following its recommendations should ensure the association's smooth budgetary transitions from one fiscal year to the next, and either decrease or eliminate the need for "special assessments".

In addition, your RDA reserve study serves a variety of useful purposes:

- Following the recommendations of a reserve study performed by a professional consultant can protect the Board of Directors in a community from personal liability concerning reserve components and reserve funding.

- A reserve analysis study is required by your accountant during the preparation of the association's annual audit.

- A reserve study is often requested by lending institutions during the process of loan applications, both for the community and, in many cases, the individual owners.

- Your RDA REPORT is also a detailed inventory of the association's major assets and serves as a management tool for scheduling, coordinating and planning future repairs and replacements.

- Your RDA REPORT is a tool which can assist the Board in fulfilling its legal and fiduciary obligations for maintaining the community in a state of good repair. If a community is operating on a special assessment basis, it cannot guarantee that an assessment, when needed, will be passed. Therefore, it cannot guarantee its ability to perform the required repairs or replacements to those major components which the association is obligated to maintain.

- Since the RDA reserve analysis study includes precise measurements and cost estimates of the client's assets, the detail reports may be used to evaluate the accuracy and price of contractor bids when assets are due to be repaired or replaced.

- The reserve study is an annual disclosure to the membership concerning the financial condition of the association, and may be used as a "consumers' guide" by prospective purchasers.

Colina Del Norte
Cave Creek, Arizona
CFS Reserve Analysis Report Summary

Report Date	March 3, 2008
Version	006
Account Number	1389
Budget Year Beginning	1/ 1/08
Ending	12/31/08
Total Units Included	211
Phase Development	1 of 1

Parameters:

Inflation	3.00%
Annual Contribution Increase	3.00%
Investment Yield	5.30%
Taxes on Yield	0.00%
Contingency	3.00%

Reserve Fund Balance as of 1/ 1/08: $341,973.29

Project Profile & Introduction

Unless otherwise indicated in this report, we have used 2000 as the basis for aging the original components examined in this analysis.

The reserve balance was provided by the client, and is the amount that was available on January 1, 2008. The average interest rate earned on invested reserve funds was provided by the client.

Calculation Method: Modified Cash Flow Funding Strategy: Threshold
RDA Reports: 3/2002. Updated w/site visit 10/2002. Updated w/out site visit 11/2003, 11/2004 & 5/2007. Revised 3/2008.

Cash Flow Specific Summary of Calculations

Monthly Contribution to Reserves Required:	$4,560.00
($21.61 per unit per month)	
Average Net Monthly Interest Contribution This Year:	1,660.03
Net Monthly Allocation to Reserves 1/ 1/08 to 12/31/08:	$6,220.03
($29.48 per unit per month)	

Colina Del Norte

Distribution of Accumulated Reserves

REPORT DATE: March 3, 2008
VERSION: 006
ACCOUNT NUMBER: 1389

DESCRIPTION	REM LIFE	FULLY FUNDED RESERVES	ASSIGNED RESERVES
Concrete Components - Unfunded	0	0.00	0.00
Irrigation Controllers - Unfunded	0	0.00	0.00
Light Fixtures - Unfunded	0	0.00	0.00
Monument Signs - Unfunded	0	0.00	0.00
Streets - Asphalt Seal Coat	1	26,093.59	26,093.59
Gate Operators - 52nd Place	2	9,600.00	9,600.00
Gate Operators - Cave Creek Road	2	9,600.00	9,600.00
Paint - Wrought Iron	2	57,900.00	57,900.00
Access Phone - Cave Creek Road	4	2,150.00	2,150.00
Paint - Block Walls	7	14,925.00	14,925.00
Split Rail Fencing - Wood	8	6,050.00	6,050.00
Streets - Asphalt Repairs	9	21,708.95	21,708.95
Streets - Asphalt Overlay	21	138,704.38	138,704.38
Fencing - Wrought Iron	22	47,435.20	45,280.98
Gates - Wrought Iron, Entrances	26	2,666.67	0.00
Concrete Pavers	36	3,207.55	0.00
Total Asset Summary:		340,041.34	332,012.90
Contingency @ 3.00%:		10,201.24	9,960.39
Grand Total:		350,242.58	341,973.29
Excess Reserves Not Used:			0.00

Percent Fully Funded: 98%

Colina Del Norte

Cash Flow Specific Projections

REPORT DATE: March 3, 2008
VERSION: 006
ACCOUNT NUMBER: 1389

Beginning Accumulated Reserves: $341,973

YEAR	CURRENT REPLACEMENT COST	ANNUAL CONTRBTN	ANNUAL INTEREST CONTRBTN	ANNUAL EXPENDTRS	PROJECTED ENDING RESERVES	FULLY FUNDED RESERVES	PERCENT FULLY FUNDED
'08	1,005,273	54,720	19,920	0	416,614	428,766	97%
'09	1,035,431	56,362	22,068	35,835	459,208	473,669	97%
'10	1,066,494	58,052	19,427	127,838	408,849	424,414	96%
'11	1,098,489	59,794	23,677	0	492,320	511,469	96%
'12	1,131,444	61,588	28,057	3,630	578,336	599,516	96%
'13	1,165,387	63,435	30,781	40,333	632,220	653,562	97%
'14	1,200,349	65,339	35,944	0	733,503	754,384	97%
'15	1,236,359	67,299	31,725	179,869	652,657	669,844	97%
'16	1,273,450	69,318	36,320	15,328	742,967	759,839	98%
'17	1,311,653	71,397	36,356	105,922	744,799	760,563	98%
'18	1,351,003	73,539	42,260	0	860,598	876,390	98%
'19	1,391,533	75,745	48,604	0	984,947	998,483	99%
'20	1,433,279	78,018	46,082	171,804	937,243	944,845	99%
'21	1,476,277	80,358	50,105	51,092	1,016,613	1,020,621	100%
'22	1,520,566	82,769	57,249	0	1,156,632	1,155,924	100%
'23	1,566,183	85,252	64,914	0	1,306,798	1,298,426	101%
'24	1,613,168	87,810	72,851	5,175	1,462,284	1,442,947	101%
'25	1,661,563	90,444	65,391	299,234	1,318,885	1,283,169	103%
'26	1,711,410	93,157	73,921	0	1,485,963	1,439,487	103%
'27	1,762,752	95,952	83,063	0	1,664,978	1,604,029	104%
'28	1,815,635	98,830	92,856	0	1,856,664	1,777,148	104%
'29	1,870,104	101,795	43,954	1,093,511	908,902	804,522	113%
'30	1,926,207	104,849	20,895	571,731	462,916	360,298	128%
'31	1,983,993	107,995	27,802	0	598,712	513,443	117%
'32	2,043,513	111,234	33,921	24,597	719,270	649,358	111%
'33	2,104,819	114,572	37,930	72,846	798,926	742,561	108%
'34	2,167,963	118,009	43,954	43,132	917,757	874,614	105%
'35	2,233,002	121,549	35,195	324,864	749,637	716,405	105%
'36	2,299,992	125,195	43,396	7,379	910,849	895,075	102%
'37	2,368,992	128,951	48,192	81,988	1,006,004	1,004,902	100%

Colina Del Norte
Annual Expenditure Detail

REPORT DATE: March 3, 2008
VERSION: 006
ACCOUNT NUMBER: 1389

DESCRIPTION	EXPENDITURES
REPLACEMENT YEAR 2008	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2009	
Streets - Asphalt Seal Coat	35,835.19
*** ANNUAL TOTAL:	35,835.19
REPLACEMENT YEAR 2010	
Gate Operators - 52nd Place	12,730.80
Gate Operators - Cave Creek Road	12,730.80
Paint - Wrought Iron	102,376.85
*** ANNUAL TOTAL:	127,838.45
REPLACEMENT YEAR 2011	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2012	
Access Phone - Cave Creek Road	3,629.76
*** ANNUAL TOTAL:	3,629.76
REPLACEMENT YEAR 2013	
Streets - Asphalt Seal Coat	40,332.83
*** ANNUAL TOTAL:	40,332.83
REPLACEMENT YEAR 2014	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2015	
Paint - Block Walls	61,186.23
Paint - Wrought Iron	118,682.83
*** ANNUAL TOTAL:	179,869.06

Colina Del Norte
Annual Expenditure Detail

DESCRIPTION	EXPENDITURES
REPLACEMENT YEAR 2016	
Split Rail Fencing - Wood	15,327.92
*** ANNUAL TOTAL:	15,327.92
REPLACEMENT YEAR 2017	
Streets - Asphalt Repairs	60,526.59
Streets - Asphalt Seal Coat	45,394.94
*** ANNUAL TOTAL:	105,921.53
REPLACEMENT YEAR 2018	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2019	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2020	
Gate Operators - 52nd Place	17,109.12
Gate Operators - Cave Creek Road	17,109.12
Paint - Wrought Iron	137,585.93
*** ANNUAL TOTAL:	171,804.17
REPLACEMENT YEAR 2021	
Streets - Asphalt Seal Coat	51,092.40
*** ANNUAL TOTAL:	51,092.40
REPLACEMENT YEAR 2022	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2023	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2024	
Access Phone - Cave Creek Road	5,175.15
*** ANNUAL TOTAL:	5,175.15

Colina Del Norte
Annual Expenditure Detail

DESCRIPTION	EXPENDITURES
REPLACEMENT YEAR 2025	
Paint - Block Walls	82,229.18
Paint - Wrought Iron	159,499.82
Streets - Asphalt Seal Coat	57,504.95
*** ANNUAL TOTAL:	299,233.95
REPLACEMENT YEAR 2026	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2027	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2028	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2029	
Streets - Asphalt Overlay	942,492.18
Streets - Asphalt Repairs	86,296.45
Streets - Asphalt Seal Coat	64,722.33
*** ANNUAL TOTAL:	1,093,510.96
REPLACEMENT YEAR 2030	
Fencing - Wrought Iron	340,840.29
Gate Operators - 52nd Place	22,993.22
Gate Operators - Cave Creek Road	22,993.22
Paint - Wrought Iron	184,903.99
*** ANNUAL TOTAL:	571,730.72
REPLACEMENT YEAR 2031	
*** ANNUAL TOTAL:	0.00
REPLACEMENT YEAR 2032	
Split Rail Fencing - Wood	24,596.81
*** ANNUAL TOTAL:	24,596.81
REPLACEMENT YEAR 2033	
Streets - Asphalt Seal Coat	72,845.56

Colina Del Norte
Annual Expenditure Detail

DESCRIPTION	EXPENDITURES
*** ANNUAL TOTAL:	72,845.56
REPLACEMENT YEAR 2034	
Gates - Wrought Iron, Entrances	43,131.82
*** ANNUAL TOTAL:	43,131.82
REPLACEMENT YEAR 2035	
Paint - Block Walls	110,509.14
Paint - Wrought Iron	214,354.40
*** ANNUAL TOTAL:	324,863.54
REPLACEMENT YEAR 2036	
Access Phone - Cave Creek Road	7,378.51
*** ANNUAL TOTAL:	7,378.51
REPLACEMENT YEAR 2037	
Streets - Asphalt Seal Coat	81,988.33
*** ANNUAL TOTAL:	81,988.33

REPORT DATE: March 3, 2008
VERSION: 006
ACCOUNT NUMBER: 1389

Concrete Components - Unfunded

ASSET ID 1020
GROUP/FACILITY 0
CATEGORY 10

PLACED IN SERVICE 0/ 0
0 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2008
0 YEAR REM LIFE

QUANTITY	1 comment
UNIT COST	0.000
PERCENT REPL	0.00%
CURRENT COST	0.00
FUTURE COST	0.00
SALVAGE VALUE	0.00

REMARKS:

We are not budgeting for repair or replacement of concrete decks, pads, sidewalks, or driveways as a reserve component. It is anticipated that any repairs required will be addressed immediately due to safety concerns. Good maintenance practice won't allow the need for repairs to accumulate to a point of major expense. We recommend that the client includes a line item in the annual operating budget for repairs and/or replacements on an "as needed" basis. However, should the client wish to include budgeting for concrete components, we will do so at their request (cost and useful life to be provided by client).

Concrete Pavers

ASSET ID 1027
GROUP/FACILITY 0
CATEGORY 10

PLACED IN SERVICE 4/04
40 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2044
36 YEAR REM LIFE

QUANTITY	1 total
UNIT COST	34,000.000
PERCENT REPL	100.00%
CURRENT COST	34,000.00
FUTURE COST	98,541.46
SALVAGE VALUE	0.00

REMARKS:

The client has advised us the entrance pavers were installed in April 2004 by European Pavers Southwest at a cost of $30,126.84.

The client has requested that we budget to replace these pavers every 40 years.

The current cost used on this asset is based upon actual expenditures

Concrete Pavers, Continued ...

incurred at last replacement, and has been adjusted for inflation where applicable.

Streets - Asphalt Overlay			
ASSET ID	1001	QUANTITY	1 total
GROUP/FACILITY	0	UNIT COST	506,636.000
CATEGORY	10	PERCENT REPL	100.00%
		CURRENT COST	506,636.00
		FUTURE COST	942,492.20
		SALVAGE VALUE	0.00

PLACED IN SERVICE 2/00
25 YEAR USEFUL LIFE
+4 YEAR ADJUSTMENT
REPLACEMENT YEAR 2029
21 YEAR REM LIFE

REMARKS:

463,886	- sq. ft. of 1.5" overlay	@	$ 1.00	=	$ 463,886.00
75	- manhole cover adjustments	@	300.00	=	22,500.00
81	- valve cover adjustments	@	250.00	=	20,250.00
			TOTAL	=	$ 506,636.00

The asphalt measurement was obtained from the Sunland Asphalt proposal dated 8/13/2004.

Most asphalt areas can be expected to last between 20 - 30 years before it will become necessary for an overlay to be applied. This can double the life of the surface upon application. It will be necessary to adjust manhole and valve covers at the time the overlay is applied. Deflection testing should be conducted by an independent consultant near the end of the estimated useful life to determine the condition of the asphalt and estimated remaining life before the overlay is required.

The useful life has been adjusted to align with the future seal coating and repair cycles.

Streets - Asphalt Repairs			
ASSET ID	1002	QUANTITY	463,886 sq. ft.
GROUP/FACILITY	0	UNIT COST	2.500
CATEGORY	10	PERCENT REPL	4.00%
		CURRENT COST	46,388.60
		FUTURE COST	60,526.60
		SALVAGE VALUE	0.00

PLACED IN SERVICE 2/00
12 YEAR USEFUL LIFE
+5 YEAR ADJUSTMENT
REPLACEMENT YEAR 2017
9 YEAR REM LIFE

REMARKS:

This component includes a provision for asphalt repairs. The accumulated funds should be used as needed for repairs in conjunction with the street sealing applications.

The useful life of the asphalt repairs has been adjusted to align with the future seal coating cycle.

Streets - Asphalt Seal Coat			
ASSET ID	1003	QUANTITY	463,886 sq. ft.
GROUP/FACILITY	0	UNIT COST	0.075
CATEGORY	10	PERCENT REPL	100.00%
		CURRENT COST	34,791.45
		FUTURE COST	35,835.19
		SALVAGE VALUE	0.00

PLACED IN SERVICE 1/05
4 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2009
1 YEAR REM LIFE

REMARKS:

The client has advised us that the community asphalt was seal coated in 2005, however did not provide any specific information regarding this project. Therefore, we have used January 2005 as the placed in service date and have used an estimated cost based on current market conditions.

It should be noted that the seal coat, repairs and overlay/rehabilitation assets are budgeted to occur simultaneously (refer to the Annual Expenditure Detail to identify the year this occurs). We acknowledge that the seal coat won't be needed in the same year as the overlay/rehabilitation. However, in an effort to properly budget for a continuous seal coat cycle, this can't be avoided. The funds available for the seal coat can be used to help offset additional expenses associated with the overlay/rehabilitation.

Paint - Block Walls

ASSET ID	1017
GROUP/FACILITY	0
CATEGORY	30

QUANTITY	1 total
UNIT COST	49,750.000
PERCENT REPL	100.00%
CURRENT COST	49,750.00
FUTURE COST	61,186.22
SALVAGE VALUE	0.00

PLACED IN SERVICE 1/05
10 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2015
7 YEAR REM LIFE

REMARKS:

This component budgets to paint the perimeter and interior common area block walls. The cost includes an estimate for prep, repairs and painting.

The client has advised us that the community block walls were painted in 2005 by JD Hinds at a cost of $45,500.00, and has requested that we use a 10 year paint cycle.

The current cost used on this asset is based upon actual expenditures incurred at last replacement, and has been adjusted for inflation where applicable.

Paint - Wrought Iron

ASSET ID	1014
GROUP/FACILITY	0
CATEGORY	30

QUANTITY	1 total
UNIT COST	96,500.000
PERCENT REPL	100.00%
CURRENT COST	96,500.00
FUTURE COST	102,376.85
SALVAGE VALUE	0.00

PLACED IN SERVICE 1/05
5 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2010
2 YEAR REM LIFE

REMARKS:

The client has advised us that the community wrought iron was painted in 2005 by JD Hinds at a cost of $84,600.00. This component budgets to paint this fencing every five (5) years going forward. We have included a provision for the steel split rail fencing at the drainage culverts and the gates at the three (3) entrances.

The current cost used on this asset is based upon actual expenditures incurred at last replacement, and has been adjusted for inflation where applicable.

Fencing - Wrought Iron

ASSET ID	1024
GROUP/FACILITY	0
CATEGORY	40

QUANTITY	1 total
UNIT COST	177,882.000
PERCENT REPL	100.00%
CURRENT COST	177,882.00
FUTURE COST	340,840.31
SALVAGE VALUE	0.00

PLACED IN SERVICE 1/00
30 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2030
22 YEAR REM LIFE

REMARKS:

3,320 - lin. ft. of 2'0" view fencing	@	$ 16.00	=	$ 53,120.00
5,671 - lin. ft. of 4'0" view fencing	@	22.00	=	124,762.00
		TOTAL	=	$ 177,882.00

The linear footage measurement of this fencing was provided by Shea Homes at the time the original reserve study was prepared.

Gates - Wrought Iron, Entrances

ASSET ID	1013
GROUP/FACILITY	0
CATEGORY	40

QUANTITY	1 total
UNIT COST	20,000.000
PERCENT REPL	100.00%
CURRENT COST	20,000.00
FUTURE COST	43,131.83
SALVAGE VALUE	0.00

PLACED IN SERVICE 1/04
30 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2034
26 YEAR REM LIFE

REMARKS:

The client has advised us that the vehicle and pedestrian gates located at all three entrances were replaced in 2003/2004 at a total cost of $22,000 (included some expense for reconfiguration). This component includes a provision for the replacement of these gates every 30 years.

RDA will obtain the specific inventory of these gates at the time that the client requests that we perform an on-site inspection.

These gates are located at Cave Creek, 52nd Place and 53rd Street.

Split Rail Fencing - Wood			
ASSET ID	1023	QUANTITY	1 total
GROUP/FACILITY	0	UNIT COST	12,100.000
CATEGORY	40	PERCENT REPL	100.00%
		CURRENT COST	12,100.00
		FUTURE COST	15,327.92
		SALVAGE VALUE	0.00

PLACED IN SERVICE 1/00
16 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2016
8 YEAR REM LIFE

REMARKS:

1,100 - lin. ft. of 3' high, 2 rail fencing	@	$ 11.00	=	$ 12,100.00
		TOTAL	=	$ 12,100.00

This component budgets to replace the wood split rail fencing that is located in various places throughout the community.

Light Fixtures - Unfunded			
ASSET ID	1021	QUANTITY	1 comment
GROUP/FACILITY	0	UNIT COST	0.000
CATEGORY	50	PERCENT REPL	0.00%
		CURRENT COST	0.00
		FUTURE COST	0.00
		SALVAGE VALUE	0.00

PLACED IN SERVICE 0/ 0
0 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2008
0 YEAR REM LIFE

REMARKS:

We are not budgeting to replace any ground level pagoda type or spot/flood-light fixtures because the cost to do so is most often considered an operating expense. It is difficult to determine a useful life for these types of fixtures because they are frequently damaged by pedestrians, landscape personnel, and weather conditions. Any repairs and/or replacements should be handled on an "as needed" basis, and the expense paid for out of the operating budget.

Access Phone - Cave Creek Road	
ASSET ID	1011
GROUP/FACILITY	0
CATEGORY	80

QUANTITY	1 phone
UNIT COST	3,225.000
PERCENT REPL	100.00%
CURRENT COST	3,225.00
FUTURE COST	3,629.77
SALVAGE VALUE	0.00

PLACED IN SERVICE 1/00
12 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2012
4 YEAR REM LIFE

REMARKS:

This is a Sentex, "hands-free", access phone located at the Cave Creek Rd. entrance.

Gate Operators - Cave Creek Road	
ASSET ID	1012
GROUP/FACILITY	0
CATEGORY	80

QUANTITY	4 operators
UNIT COST	3,000.000
PERCENT REPL	100.00%
CURRENT COST	12,000.00
FUTURE COST	12,730.80
SALVAGE VALUE	0.00

PLACED IN SERVICE 1/00
10 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2010
2 YEAR REM LIFE

REMARKS:

These are swing gate operators.

RDA has assumed that no gate operator replacements or additions have occurred since the original placed in service date of 2000.

Gate Operators - 52nd Place			
ASSET ID	1028	QUANTITY	4 operators
GROUP/FACILITY	0	UNIT COST	3,000.000
CATEGORY	81	PERCENT REPL	100.00%
		CURRENT COST	12,000.00
		FUTURE COST	12,730.80
		SALVAGE VALUE	0.00

PLACED IN SERVICE 1/00
10 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2010
2 YEAR REM LIFE

REMARKS:

These are swing gate operators.

RDA has assumed that no gate operator replacements or additions have occurred since the original placed in service date of 2000.

Irrigation Controllers - Unfunded			
ASSET ID	1016	QUANTITY	1 comment
GROUP/FACILITY	0	UNIT COST	0.000
CATEGORY	100	PERCENT REPL	0.00%
		CURRENT COST	0.00
		FUTURE COST	0.00
		SALVAGE VALUE	0.00

PLACED IN SERVICE 0/ 0
0 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2008
0 YEAR REM LIFE

REMARKS:

The client has advised us that there are three, 8 station irrigation controllers - one for each of the three phases. Initially, these time clocks will be used for new desert vegetation, but will be shut off once this vegetation has started to grow in its natural habitat. Consequently, we are not budgeting to replace these controllers. Should they be placed back in service, we will include these controllers in a future update of this report at the request of the client.

Monument Signs - Unfunded			
ASSET ID	1022	QUANTITY	1 comment
GROUP/FACILITY	0	UNIT COST	0.000
CATEGORY	100	PERCENT REPL	0.00%
		CURRENT COST	0.00
		FUTURE COST	0.00
		SALVAGE VALUE	0.00

PLACED IN SERVICE 0/ 0
0 YEAR USEFUL LIFE
+0 YEAR ADJUSTMENT
REPLACEMENT YEAR 2008
0 YEAR REM LIFE

REMARKS:

The client has advised us that new monument signs have replaced the original monunent sign structure at the Cave Creek Road entrance. The client has requested that we determine at the time of a future update (if an on-site inspection is requested) if any reserves are necessary for the new structures.

DETAIL REPORT INDEX

TOTAL ASSET LINES INCLUDED: 16