

RESERVE STUDY ANALYSIS

For

Frontier Trail Homeowners' Association

Kernville, California
A Planned Residential Development

April 15, 2004



Prepared By

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TABLE OF CONTENTS

Introduction to Reserve Studies

The Importance of Reserve Studies	1
State Law Compliance	1
Reserve Account Funding	2
Procedure of Reserve Study	3
Identification of Association Maintenance Obligations	3
Reserve Study Updates and Disclosures	4

Development Identification

Purpose of Association	5
Development Location	5
Development Specifications	5

Reserve Account Calculations

Reserve Account Summary	7
Major Component Listing	8
Current Financial Condition/Recommended Funding Level	9
Cash Flows Using Recommended Funding Level	10
Percentage Funded/Estimated Remaining Balances	11
Estimated Expenditures by Year	12

Major Component Inspections

Evaluations and Comments	13
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Appendix Section

Appendix A: Recommended Maintenance	19
Appendix B: Terms and Definitions	20
Appendix C: Reserve Account Requirements - Homeowner Summary	21
Appendix D: Homeowner / Member Responsibilities	23

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INTRODUCTION TO RESERVE STUDIES

The Importance of Reserve Studies

Insisting on a professionally prepared Reserve Study from Walla Services was an excellent management decision in dealing with your association's long-term financial goals. Over the years, we have developed a reputation for detail, accuracy, and service.

There are certain important fundamentals to remember when establishing an association's annual operating budget. One of the budget's essential basics is the development's reserve account requirement. The board of director's fiduciary responsibility of maintaining the development's major components in good condition and establishing properly funded reserve accounts for their replacement or restoration are significant factors regarding the overall value of Residential Common Interest Developments. This ever-changing situation has a definite impact on the marketability and resale value of individual homes within the development.

Prospective homebuyers, insurance companies, and lending institutions are becoming increasingly aware as to the importance of professionally prepared Reserve Studies. They also recognize the need for long term funding of reserve accounts instead of relying on special assessments. Good financial management policies are apparent by acquiring a professionally prepared Reserve Study and implementing its long term funding plan.

State Law Compliance

A board of directors is responsible for this association's operation and affairs for the benefit and enjoyment of all the homeowners. The Davis-Stirling Common Interest Development Act of the California Civil Code mandates the board's responsibilities, requirements, and duties of managing a homeowners association. Some of these codes outline association requirements relating to the preparation and distribution of Pro Forma Operating Budgets. This budget must also include the association's reserve account requirements.

Sections 1360 and 1364 identify the association and homeowner responsibilities concerning modifications, repairs, maintenance, or replacement of the development's components, unless the governing documents provide different responsibilities.

Section 1365 establishes what summary information to include with the Pro Forma Operating Budget concerning reserve fund requirements. This information must come from the most recent reserve study. In addition, the board of directors must include a disclosure statement with the summary indicating whether the board expects to levy any special assessments to the homeowners to help defray component replacement or maintenance costs. This section further indicates that an additional statement must address the procedures used for the calculation and establishment of the reserve account requirements.

State law mandates that distribution of the operating budget must occur not less than forty-five (45) days or more than sixty (60) days before the beginning of the association's next fiscal year and must include a summary of the study's reserve requirement information.¹

¹ This study includes a two page reserve account summary for homeowners, Appendix C

Section 1365.5 establishes the minimum requirements of reserve studies and mandates the board of directors to have a study of the association's reserve account requirements conducted *at least once every three years*. Information contained in the study must be from a *reasonably, competent and diligent visual inspection* of all accessible major components. The board of directors is also mandated under this Section *to annually review* this study to consider and implement any necessary changes and adjustments.

Section 1366 establishes the association's right to levy regular, special, and extraordinary expense assessments to the homeowners and outlines the limitations of assessment increases. Unless the governing documents have more restrictive limitations, *the board of directors may not impose a regular assessment that is greater than 20% over the preceding fiscal year's regular assessment or impose special assessments that exceed 5% of the budgeted gross expenses for that fiscal year*. In addition, the board of directors may not increase regular assessments unless they have complied with Sections 1365(a) or have obtained homeowner approval for the increase.

Reserve Account Funding

The ideal funding situation is to deposit a fixed amount monthly, quarterly, or annually into a separate high yield and secured reserve fund account without commingling these funds with the general operating accounts. The process in determining proper funding levels can be difficult and complex, depending on the development's size and the amount of components involved. Reaching this goal takes careful planning. Analyzing major common area components on a continuing basis and using realistic replacement costs are essential to this goal.

As we all know, most components have different useful lives. For example, paint on the surface of exterior walls has a shorter useful life as compared to a composition shingle roof. This requires a definite amount of funds to be available for the repair or replacement of each major component at different periods. In addition, because some components require replacement or repairs on a repetitive cycle basis, the equation used to determine proper long-term funding must include a constant saving plan for those components. Additional funds for eliminating or reducing the association's present deficit, if any, are also an important factor in the funding process.

The term *fully funded* continues to receive numerous explanations. However, in theory it means having a component's current liability fully funded at any given time. In other words, funds should be available for any normally scheduled component replacement without excessively depleting the designated liability funds of the other components. California Civil Code Section 1365 indicates the board shall disclose the difference between the total current replacement costs of all components and the actual current cash reserves set aside. This study's *percentage funded* compares both the total current liability of all components and their total current replacement cost to actual cash available in the association's reserve fund accounts.

This study establishes a *financial blueprint* the board of directors can use to fund the development's reserve accounts adequately and reach a theoretically fully funded financial position. However, the board of directors has the final decision regarding the overall funding levels of the association. The saving plan established in this study will usually curb hard to pass and implement special assessments when dealing with predictable major expenses.

Procedure of Reserve Study

The following information summarizes some of the procedures used in conducting and establishing the funding levels for this association.

The Reserve Study process included an on-site quantity survey with all measurements taken in the field followed by a physical inspection of each major component. Component inspections were valuable in establishing estimated remaining lives, current component conditions, and to provide any recommendations concerning a component's longevity or appearance. Also included, are any required and/or preventive maintenance comments.¹

Resources used for estimating replacement costs were from the Saylor Construction Cost Estimating System, any available contractor bids, or actual historical component replacement costs. The study uses various other assumptions, such as interest and inflation rates, to calculate future replacement costs of components and theoretical cash flows.

The method used to determine this association's estimated funding level started by employing the straight line or segregated method. This method uses each component's estimated current replacement cost, present age, estimated remaining life, and normal life to establish current component liabilities. These current liabilities were instrumental in establishing recommended assessments and ideal fund balances by further using a calculation method that takes into account various assumptions. These assumptions include interest earnings on fund balances, future component replacement costs along with their corresponding replacement years, and inflation rates.

The study then projects a theoretical reserve fund cash flow for the next twenty (20) years while achieving a fully funded position. Any taxes that may be due on interest earnings are not deducted from fund balances. Our experience has shown that most associations pay their taxes from the operating budget accounts and not the reserve accounts.

Identification of Association Maintenance Obligations

This association's By-Laws along with an interview on February 25, 2004, with Don Jackson, President of the Board, were the main sources used for this study to help identify major components or amenities this association is obligated to maintain (refer to page 5). This also included a limited review and evaluation of association and homeowner responsibilities along with an on-site inspection of the development. For homeowner or member responsibilities, refer to Appendix D.

The major components contained in this study have a limited life span that carries a useful life normally less than the estimated life of the development (normally a useful life of 30 years or less). Therefore, this study does not address reserve funding of certain components that will last the project's lifetime or have minimal replacement costs. Funding for any maintenance or replacement costs associated with those components should come from the operating accounts.

¹ Refer to the Recommended Maintenance section, Appendix A

Reserve Study Updates and Disclosures

This Reserve Study Analysis does not address the foundation, basic frame, or substructure of common area buildings or structures. Therefore, any comments or suggestions contained in this study concerning these components are for *information purposes only*. This study does not attempt to establish any additional funding for structural defects unless otherwise directed.

Because of unforeseen reasons, common area components may require maintenance or replacement before reaching the estimated remaining lives stated in this study. Furthermore, this firm claims no responsibility for inaccurate reserve fund figures or information supplied by the association's board of directors or their acting agents.

Components in this study use estimated current average replacement costs along with various assumptions as to interest earnings and inflation rates. In addition, certain conditions such as weather, deferred preventive maintenance, substandard materials used during construction, or the general workmanship of the development can decrease a component's normal useful life. Therefore, we recommend the board review and update this study on an annual basis. 1

1 Pursuant to California Civil Code § 1365.5 (e)

Purpose of Association

The following narrative was taken directly from the Association's By-Laws describing the purpose of this development.

The purpose of the Association is to construct and maintain the primary access roads (as defined under EXHIBIT #1) and the mutual water system for the equitable benefit of all parcel owners within the Will-Serve Water Perimeter of the Association (as defined by EXHIBIT #2: Map Of The Will-Serve Water Perimeter of the Association) who maintain Active Member status in the Association. This Will-Serve Area lies within Sections 15 and 16, Township 25 Range 33 East, Mt. Diablo Base and Meridian near Kernville, California. The purpose of the Association also is to assist the County Fire Department in fire suppression; to purchase insurance as defined by law and desired by the membership; to maintain a Neighborhood Watch Program; and to maintain such funds as are necessary to perform all the above tasks under the statutory requirements of a non-profit, common interest development corporation in the State of California.

Development Location

Development Name	Frontier Trail Homeowner's Association
Address	PO Box 602 (Frontier Trails Road)
City/State/Zip	Kernville, California 93238
County	Kern

Development Specifications

Common Interest Development Type	Planned Residential Development
Tract Number	(Refer to description above)
Tract Map Book/Volume/Pages	N/A
Date Tract Platted/Surveyed	N/A
Date Tract Map Recorded	N/A
Date Main Road Paved	November 2002
Date #1 Well/Pump Installed or Rebuilt	2003
Date #2 Well/Pump Installed or Rebuilt	1996
Number of Residential Lots (roads)	37
Number of Residential Lots (water)	28
Type of Residential Structures	Detached, single family homes
Recreational Areas	None
Paved Areas (asphalt)	109,200 SF (9,100 LF x average width of 12 FT)
Paved Areas (decomposed granite)	82,344 SF (6,862 LF x average width of 12 FT)
Restricted Common Areas	None
Landscaped Common Areas	None
Total Subdivision Area	N/A

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RESERVE ACCOUNT SUMMARY

Account Summary Parameters

Current Financial Position / Funding Level Date	November 30,
Projected Year-End Financial Position Date	June 30, 2004
Development Inspection Date	February 25, 2004
Average Annual Rate of Return	1.00%
Assumed Annual Inflation Rate	3.00%

Current Financial Position

Estimated Total Current Replacement Costs	596,050.00
Estimated Total Future Replacement Costs	935,474.00
Estimated Reserve Account Liability 1	221,029.20
Reserve Account Balance ²	44,025.75
Reserve Account Deficit ³	177,003.45
Account Liability Funded	19.92%
Total Current Replacement Cost Funded	3.69%
Annual Account Allotment	N/A
Quarterly Account Allotment	N/A
Per Lot/Quarterly Account Allotment	N/A
Approved Special Assessments	0.00

Projected Year-End Financial Position

Outstanding Account Deposits	0.00
Planned/Recommended Expenditures	0.00
Reserve Account Balance	44,283.00
Reserve Account Deficit	176,747.00
Account Liability Funded	20.03%

Recommended Funding Level / Parameters

Road/Water Users Per Lot/Annual Allotment (37 lots) ⁴	604.80
Road/Water Users Per Lot/Quarterly Allotment	151.20
Water Users Per Lot/Annual Allotment (28 lots) ⁵	492.60
Water Users Per Lot/Quarterly Allotment	123.15
Annual Allotment Increases (thereafter)	5.00%
Projected Special Assessments	0.00

1 roads - 38,283.62; water system - 182,745.58
2 roads - 18,426.13; water system - 25,599.62
3 roads - 19,857.49; water system - 157,145.96
4 total annual allotment - 22,377.60
5 total annual allotment - 13,792.80

MAJOR COMPONENT LISTING

(*) Current Financial Position as of: November 30, 2003

RESERVE ACCOUNT CALCULATIONS
Frontier Trails Homeowners' Association - Kernville, CA

Component	Year Installed	Normal Useful Life	Est. Remain Life	Est. Replace Year	Est. Quantity	Est. Unit Cost	UNITS/LOTS:		Current Financial Position (*)	Funds Allocated	Deficit or (Overage)
							Est. Current Replacement Cost	% of Liability			
(1) ROADS											
Paved, asphalt overlay, 2" asphaltic concrete	2002	20	18	2022	109,236 SF	1.15 SF	125,620	32.813%	\$6,046.17	\$6,515.83	
Paved, asphalt structural repairs	2002	3	1	2005	1 LS	\$3,500.00 TOTAL	3,500	6.095%	1,123.07	1,210.27	
Paved, asphalt slurry seal, Cal-Trans Type II	none	7	5	2009	109,236 SF	0.26 SF	28,400	21.195%	3,905.42	4,208.86	
Unpaved, decomposed granite, regrade	N/A	10	5	2009	82,344 SF	0.35 SF	28,820	37.640%	6,935.6D	7,474.40	
(1) Culverts, corrugated metal pipe, 8"-10"	2002	25	23	2027	27 EA	400.00 EA	10,800	2.257%	415.88	448.12	
					Road System Totals:		197,140	100.00%	18,426.13	19,857.49	
WATER WELL NO. 1 (depth - 81 ft.)											
(2) Submersible Pump, 10.0 HP	2003	7	6	2010	1 EA	6,500.00 EA	6,500	0.508%	130.05	798.52	
Pump Control / Electrical	2003	20	19	2023	1 EA	3,500.00 EA	3,500	0.096%	24.58	150.42	
Chlorinator	2003	5	4	2008	1 EA	1,500.00 EA	1,500	0.164%	41.98	258.02	
(3) WATER WELL NO. 2 (depth - 46 ft.)											
Submersible Pump, 7.5 HP	1996	15	7	2011	1 EA	5,200.00 EA	5,200	1.518%	388.60	2,384.76	
Pump Control / Electrical	1996	20	12	2018	1 EA	3,500.00 EA	3,500	0.766%	196.09	1,203.91	
WATER LINES											
Mains, 4", PVC schedule 40, solvent weld	N/A	30	15	2019	13,300 LF	15.70 LF	208,810	57.131%	14,625.32	89,779.61	
Secondary, 2", PVC schedule 40, solvent weld	N/A	30	15	2019	10,400 LF	9.75 LF	101,400	27.743%	7,102.10	43,597.90	
(4) Fire Hydrants	N/A	35	20	2024	12 EA	400.00 EA	4,800	1.126%	288.25	1,768.85	
WATER STORAGE TANKS											
(5) Lower Site, 10,000 gal. welded tank	1995	30	21	2025	2 EA	5,000.00 EA	10,000	1.642%	420.35	2,579.62	
(6) Lower Site, 40,000 gal. bolted tank	1993	30	19	2023	1 EA	25,000.00 EA	25,000	5.016%	1,284.08	7,882.55	
(7) Lower Site, pressure pumps, 5.0 HP	2002	10	8	2012	2 EA	1,850.00 EA	3,700	0.405%	103.68	636.32	
(8) Lower Site, pump controls / electrical	2002	20	18	2022	2 EA	1,500.00 EA	3,000	0.164%	41.98	258.02	
(9) Upper Site, 23,000 gal. bolted tank	1996	30	22	2026	1 EA	15,000.00 EA	15,000	2.189%	560.38	3,439.62	
MISC. COMPONENTS											
Electrical Supply	N/A	25	15	2019	2 FA	\$3,500.00 EA	7,000	1.532%	392.19	2,407.81	
(1) Water Meters / Check Valves					Water System Totals:		398,910	100.00%	25,599.62	157,145.96	
					Totals:		396,050		44,025.75	177,003.45	

Footnotes:
 (1) surfaced in 2002 for \$122,878.28 (cost includes culvert work)
 (2) new motor / pump installed in 2003 - main water supply
 (3) rebuilt in 1996 - pump will be used for back-up only
 (4) Owner / Member responsibility for installation, HOA for repairs
 (5) tanks repaired in 1995
 (6) tank installed in 1993
 (7) motors rebuilt in 2002
 (8) new controls installed in 2002
 (9) tank recoated in 1996
 (10) Owner / Member responsibility

RESERVE ACCOUNT CALCULATION
Frontier Trails Homeowners' Association - Kernville, CA
NO. OF UNITS/LOTS: 37 (roads/water); 28 (water only)

CURRENT FINANCIAL CONDITION & RECOMMENDED FUNDING LEVEL

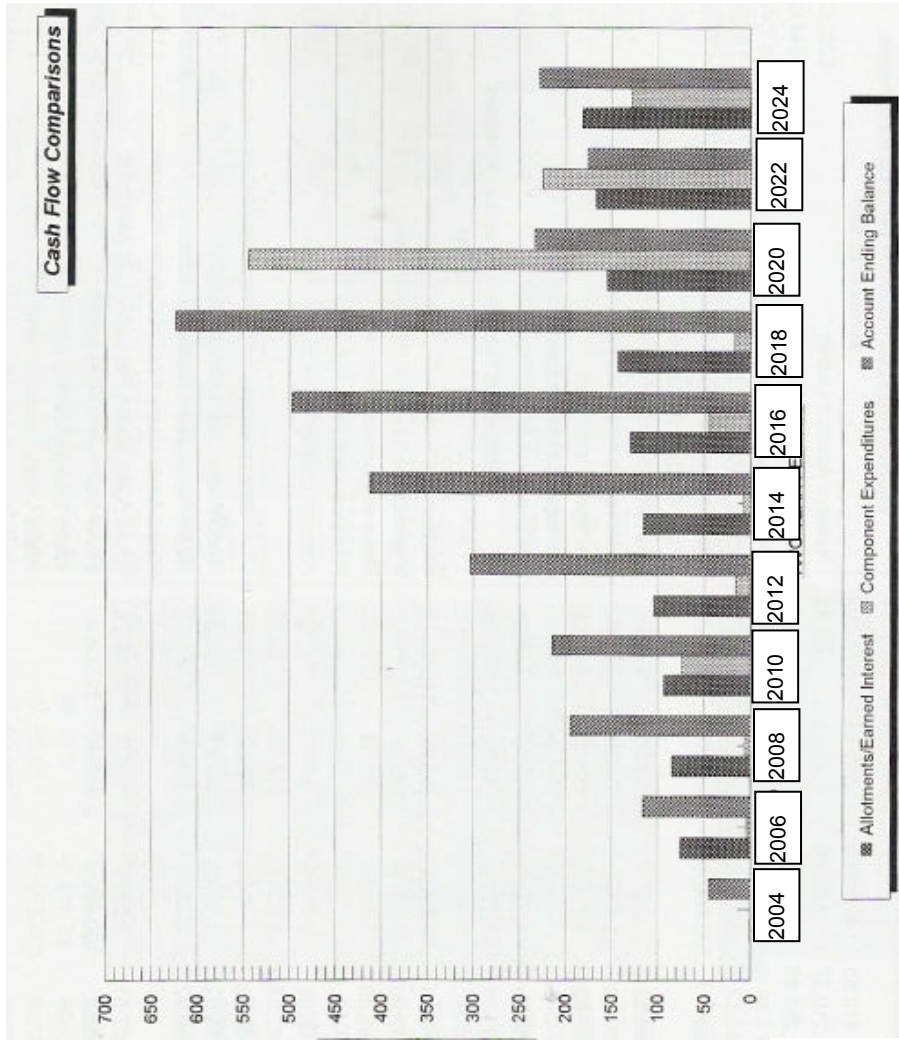
Component	Est. Remain Life	Est Current Replacement Cost	Current Deficit or (Coverage)	Recommended Allocations			Current Financial Position I Funding Parameters
				Allocation Percentage	Monthly Allotment	Annual Allotment	
ROADS							
Paved, asphalt structural repairs	1	3,500	1,210.27	7.873%	27.29	327.48	Reserve Account Liability \$221.1
Paved, asphalt slurry seal, Cal-Trans Type II	5	28,400	4,208.86	27.378%	94.89	1,138.68	Reserve Account Balance \$44.1
Unpaved, decomposed granite, regrade	5	28,820	7,474.40	19.448%	67.41	808.92	Reserve Account Deficit \$177.1
Culverts, corrugated metal pipe, 8"-10"	23	10,800	448.12	2.915%	10.10	121.20	Account Liability Funded 19.9
		Road System Totals:	100.000%		346.60	4,159.20	Total Replacement Cost Funded 7.3
WATER WELL NO. 1 (depth - 81 ft.)							
Submersible Pump, 10.0 HP	6	6,500	798.52	6.245%	166.58	1,998.96	Annual Account Allotment N
Pump Control / Electrical	19	3,500	150.42	1.177%	31.39	376.68	Quarterly Account Allotment N
Chlorinator	4	1,500	58.02	2.018%	53.82	645.84	Approved Special Assessments N
							Average Interest Rate 1.0
WATER WELL NO. 2 (depth - 46 ft.)							
Submersible Pump, 7.5 HP	7	5,200	2,384.76	2.331%	62.19	746.28	Estimated Taxes On Earned Interest N
Pump Control I Electrical	12	3,500	1,203.91	1.177%	31.39	376.68	Assumed Annual Inflation Rate 3.0
							Projected Year-End Financial Position
June 30, 2004							
WATER LINES							
Mains, 4", PVC schedule 40, solvent weld	15	208,810	89,779.63	46.810%	1,248.61	14,983.32	Outstanding Reserve Account Deposits
Secondary, 2", PVC schedule 40, solvent	15	101,400	3,597.90	22.731%	606.33	7,275.96	Planned/Recommended Expenditures
Fire Hydrants	20	4,800	1,768.85	0.922%	24.60	295.20	Reserve Account Balance \$44.1
							Reserve Account Deficit \$176.1
							Account Liability Funded 20.0
WATER STORAGE TANKS							
Lower Site, 10,000 gal. welded tank	21	10,000	2,579.62	2.242%	59.80	717.60	
Lower Site, 40,000 gal. bolted tank	19	25,000	7,882.55	5.604%	149.49	1,793.88	
Lower Site, pressure pumps, 5.0 HP	8	3,700	636.32	2.488%	66.37	796.44	Recommended Funding Level / Parameters (*)
Lower Site, pump controls I electrical	18	3,000	258.02	1.009%	26.91	322.92	Road/Water Users Annual Allotment, (37 lots) \$22,377
Upper Site, 23,000 gal. bolted tank	22	15,000	3,439.62	3.363%	89.69	1,076.28	Road/Water Users Quarterly Allotment \$5,594
							Road/Water Users Per Lot/Quarter Allotment \$151
							Road/Water Users Per Lot/Annual Allotment \$604
MISC. COMPONENTS							
Electrical Supply	15	7,000		1.883%	50.23	602.76	Road/Water Users Per Lot/Annual Allotment \$13,792
Water Meters / Check Valves			Water System Totals:	100.000%	2,667.40	32,008.80	Water Users Annual Allotment, (28 lots) \$3,448
							Water Users Quarterly Allotment \$123
							Water Users Per Lot/Quarter Allotment \$492
							Water Users Per Lot/Annual Allotment \$50
							Annual Allotment Increase (thereafter)
							Projected Special Assessments

(*) using current interest and assumed inflation rates

CASH FLOWS USING RECOMMENDED FUNDING LEVEL

RESERVE ACCOUNT CALCULATION
 Frontier Trails Homeowners' Association - Kernville, CA
 NO. OF UNITS/LOTS: 37 (roads/water); 28 (water only)

Year	Projected Annual Allotments	Projected^ Special Assessmts.	Interest Earnings	Expenditures In Future Dollars	Est. Ending Reserve Acct. Balance
REMAINING					44,026
2004	0	0	257	0	44,283
2005	36,168	0	443	3,605	77,289
2006	37,976	0	773	0	116,038
2007	39,875	0	1,160	0	157,073
2008	41,869	0	1,571	5,627	194,886
2009	43,962	0	1,949	66,324	174,474
2010	46,161	0	1,745	7,760	214,619
2011	48,469	0	2,146	10,698	254,537
2012	50,892	0	2,545	4,686	303,288
2013	53,437	0	3,033	1,956	357,801
2014	56,108	0	3,578	4,702	412,786
2015	58,914	0	4,128	0	475,828
2016	61,860	0	4,758	45,464	496,982
2017	64,953	0	4,970	14,679	552,225
2018	68,200	0	5,522	2,268	623,679
2019	71,610	0	6,237	538,838	162,689
2020	75,191	0	1,627	5,614	233,892
2021	78,950	0	2,339	0	315,182
2022	82,898	0	3,152	225,142	176,089
2023	87,043	0	1,761	108,480	156,412
2024	91,155	0	1,564	20,397	228,735
Totals:	\$1,195,690	\$0	\$55,258	\$1,066,238	

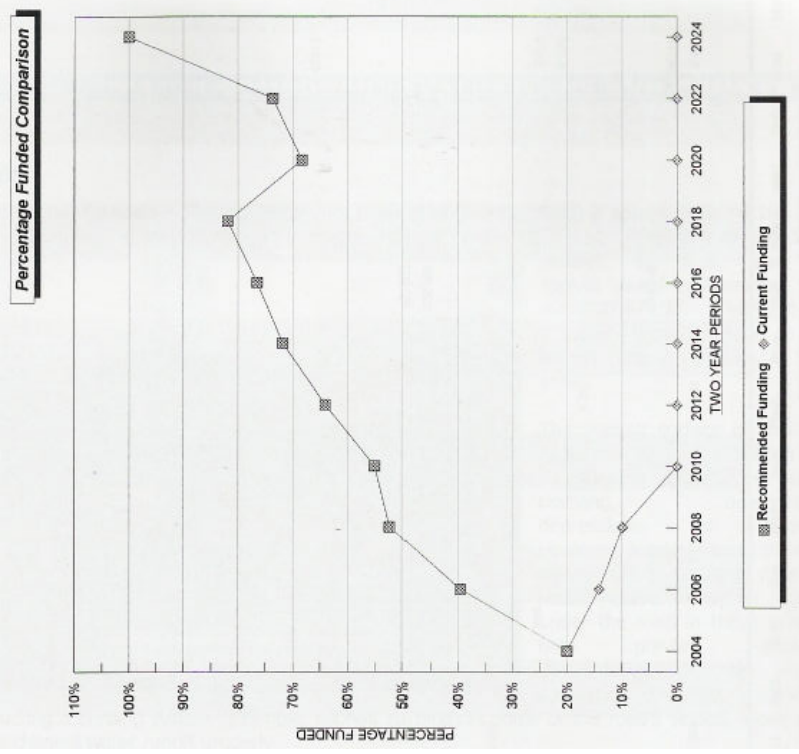


PERCENTAGE FUNDED / ESTIMATED REMAINING BALANCES

(CURRENT VS. RECOMMENDED FUNDING LEVELS)

Year	Ideal Ending Acct. Balance	Current Funding Est. Ending Acct. Balance	Current Funding Percentage Funded	Recommended Funding Est. Ending Acct. Balance	Recommended Funding Percentage Funded
2004	221,029	44,283	20.0%	44,283	20.0%
2005	254,634	41,121	16.1%	77,289	30.4%
2006	293,769	41,532	14.1%	116,038	39.5%
2007	335,015	41,947	12.5%	157,073	46.9%
2008	372,825	36,740	9.9%	194,886	52.3%
2009	352,077	(29,217)	0.0%	174,474	49.6%
2010	390,299	(36,976)	0.0%	214,619	55.0%
2011	427,811	(47,674)	0.0%	254,537	59.5%
2012	473,526	(52,360)	0.0%	303,288	64.0%
2013	524,463	(54,316)	0.0%	357,801	68.2%
2014	575,366	(59,018)	0.0%	412,786	71.7%
2015	633,706	(59,018)	0.0%	475,828	75.1%
2016	649,560	(104,482)	0.0%	496,982	76.5%
2017	697,922	(119,161)	0.0%	552,225	79.1%
2018	761,459	(121,429)	0.0%	623,679	81.9%
2019	291,667	(660,267)	0.0%	162,689	55.8%
2020	342,417	(665,880)	0.0%	233,892	68.3%
2021	401,731	(665,880)	0.0%	315,182	78.5%
2022	239,140	(891,023)	0.0%	176,089	73.6%
2023	189,857	(999,503)	0.0%	156,412	82.4%
2024	228,735	(1,019,899)	0.0%	228,735	100.0%

RESERVE ACCOUNT CALCULATION
 Frontier Trails Homeowners' Association - Kernville, CA
 NO. OF UNITS/LOTS: 37 (roads/water); 28 (water only)



ESTIMATED EXPENDITURES BY YEAR
(IN FUTURE DOLLARS)

Reserve Account Calculation
Frontier Trails Homeowners' Association
Kernville, CA

Assumed Annual Inflation Rate: 3.0% NO. OF UNITS/LOTS: 37 (roads/water); 20 (water only)

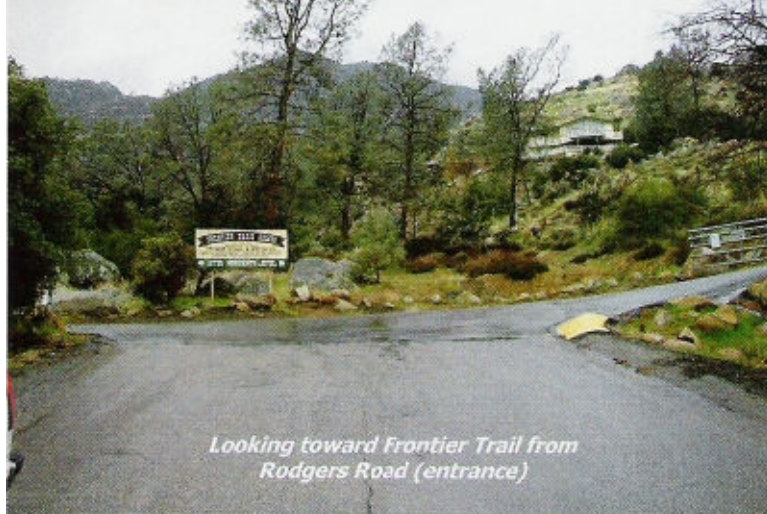
Component	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ROADS																					
Paved, asphalt overlay, 2" asphaltic concrete							4304				4,702	40,476	5,138	5,614	213,742						
Paved, asphalt structural repairs	3,605	3,939	32,918																		6,134
Paved, asphalt slurry seal, Cal-Trans Type II			33,405																		49,771
Unpaved, decomposed granite, regrade																					44,879
Culverts, corrugated metal pipe, 8'-10"																					
WATER WELL NO. 1 (depth - 81 ft.)-																					
Submersible Pump, 10.0 HP			7,760											9,541							11,739
Pump Control / Electrical		1,688								1,956					2,268						6,134
Chlorinator																					2,629
WATER WELL NO. 2 (depth - 46 ft.)																					
Submersible Pump, 7.5 HP							6,394														
Purr: Control / Electrical														4,989							
WATER LINES																					
Mains, 4" PVC schedule 40, solvent weld																					325,159
Secondary 2" PVC schedule 40, solvent weld																					157,900
Fire Hydrants																					???
WATER STORAGE TANKS																					
Lower Site, 10,000 gal welded tank																					
Lower Site, 40,000 gal. bolted tank																					43,813
Lower Site, pressure pumps, 5.0 HP										4,686											8,256
Lower Site, pump controls / electrical																					5,105
Upper Site, 23,000 gal bolted tank																					
MISC. COMPONENTS																					
Electrical Supply																					10,900
Water Meters / Check Valves																					

Total Replacement Costs: 3,605 5,027 66,324 7,760 10,698 4,686 1,956 4,702 45,464 14,679 2,268 538,838 5,614 225,142 108,480 20,399

MAJOR COMPONENT EVALUATIONS & COMMENTS

ROADS

Asphalt Paved Roads - This development's main road (Frontier Trail) is approximately 9,100 linear feet (1.724 miles) in length with an average width of twelve (12) feet. According to association records, the



main road was asphalt paved in November 2002 for \$122,878.28. This cost also included improvements to the culvert drainage system in some areas.

The asphalt surface of this road appeared in good condition with no signs of alligator or general cracking, deterioration, depressions, or potholes. However, a couple areas indicated water runoff crossing over the road¹. Culverts may be required under the road in these areas to help prevent excessive deterioration of the asphalt surface. We also recommend constructing a curbing system

(example, asphalt curbing) at some of the road's sloped, lower areas to help channel water runoff properly.

Unpaved (spur) Roads - This development also has approximately 6,862 linear feet (1.3 miles) of decomposed granite "spur" roads used for access to some of the residential lots along with the water tank sites and wells. These roads appeared in fair condition with re-grading required in some areas.

Pursuant to the By-Laws under Article VI Section 1, paragraph (1), owners or members of the association, *"are solely responsible for any and all costs incurred for any new survey and/or road construction required to install new roads from the Association's main roads to their parcels or to upgrade "spur" roads not maintained by the Association or to make such road improvements as required by the fire department. The Association may maintain any such roads upon completion"*

Asphalt Maintenance - The worst factor involving pavement damage is water migration under the pavement and into the base. Once this occurs, the pavement will usually fail and require removal and replacement. However, to help prevent this from happening or to increase the existing pavement's remaining life; an annual maintenance program should involve crack sealing. Any major cracks require cleaning out with compressed air and then filled using a slurry seal mixed with a fine aggregate or other suitable crack filler. The size of the crack involved will determine the filler type. We also recommend establishing a surface treatment program with application intervals every 3-7 years, depending on the type of surface treatment utilized. Surface treatments will usually fill minor cracks and voids.

If the pavement damage occurs that is severe enough to require structural patching, the patch's design and construction must use full-depth asphalt concrete to ensure strength equal to or exceeding the surrounding pavement areas. Properly compacted patches will also provide a uniform, supporting layer or base for overlays and surface treatments.

¹ Observed during rain storm on February 25, 2004

Asphalt Overlays - The preparation for successful asphalt overlays takes careful planning and evaluation of the pavement's present condition. Planning involves a continuous inventory of problem areas that should develop the proper corrective action. Evaluation of pavement areas includes geometric adequacy, surface condition, and structural adequacy that involve current and future uses. Evaluation of geometric adequacy involves reviewing the original construction plans along with field inspections. The evaluation of surface conditions involves a field inspection. Evaluation of the structural adequacy is by studying the surface condition and pavement components, or by measuring pavement deflection.

Asphalt overlays can consist of one or more courses depending on the desired thickness. If more than one course is applied, the first course is called a "leveling course" to help eliminate irregularities in the existing pavement surface. Overlay caps should never be applied over extensively alligator cracked pavement or any areas that show base and pavement failure. These problem areas will transfer to the new asphalt cap in a very short time. These areas require complete removal and replacement with new asphalt. If the pavement surface and base have not failed but the pavement does show some minimal signs of general cracking, a petromat overlay may be used.



A viscosity grading system is used to rate asphalt concrete. The grading system uses the following numbers; AR-16000, AR-8000, AR-4000, AR-2000, and AR-1000 with AR-16000 classified as the hardest material. The most common grade used is AR-4000 and AR-8000, depending on air temperatures during application and expected traffic loads.

Asphalt Surface Treatments - The reason for applying surface treatments is to help prevent top layer deterioration and water seepage under pavement areas. There has been a variety of asphalt surface treatments used over the years. Different types of surface treatments are for particular purposes depending on the condition and type of service the pavement would receive. Listed below are two surface treatment types with asphalt emulsion systems as the most commonly used.

Asphalt Emulsion Systems usually consist of a factory-blended compound of emulsified asphalt binder and selected mineral and fiber fillers. This surface treatment fills and improves surface texture, protects pavements from the effects of weather erosion and oxidation and provides a smooth, non-abrasive surface. However, these sealers do not add thickness or structural quality to the asphalt.

Slurry Seals are an asphalt slurry mixture made from a closely graded aggregate, emulsified asphalt and water, all carefully calibrated, and mixed forming a mortar-like compound. Slurry seals can also fill voids, most cracks, and eroded areas. The seal is approximately 3/16" thick, serves as a positive sealer, and provides a durable, non-skid surface. Slurry seals are different from seal coats and produced according to State of California Department of Transportation Standard Specifications, Section 37-2. Slurry seals fall into three (3) formula classification types; Type I, Type II, and Type III.

Chip Seals can also provide water proofing of a pavement's surface, uniform surface texture, skid resistance, seal minor cracks, and prolong the pavement's useful life. Even though chip seals may not provide any structural value or improvement to existing pavement, they may provide different advantages over other surface treatments. Chip seal applications are possible more than once on the same streets or roads. Chip seals usually have a useful life ranging from 7 to 10 years depending on traffic and environmental conditions. Chip seals consist of a polymer or non-polymer, modified PMCRS-2h, CRS-2, or CRS-2h grade asphalt emulsion applied at a rate from 0.15 to 0.40 gallons per square yard depending on the chip size used. Chip screening sizes range from 1/4" x No. 10 (Fine) to 1/28" x No. 4 (Coarse) applied at rates from 12 to 30 pounds per square yard. Surfaces are then rolled by pneumatic-tired rollers after the screening application.

Drainage Culverts - Culvert areas appeared in good condition. There are approximately twentyseven (27) culverts and drainage outlets located at various locations throughout the main road.



Roadway culverts, if properly monitored and inspected for possible problems, can have a useful life ranging from 35 to 45 years. This is mainly due to the materials used for the culvert itself. Culverts do in fact serve a very important function of channeling water under roadways. "Washouts" at culvert heads is usually the main problem encountered during the culverts useful life. These areas require annual inspection for any problems that may require repairs.

Fire Hydrants - No testing of this development's existing twelve (12) fire hydrants was conducted in the course of inspections. The units were assumed in good condition. However, we recommend painting the fire hydrants periodically.

Pursuant to the By-Laws under Article VI Section 1, paragraph (6), owners or members of the association, "*agree to install at their own expense a fire hydrantlike water connection within 500 feet, and preferably within 150 to 50 feet of any new residential structure. This connection shall line, and preferably a 2-1/2 to 4-inch line. It shall have a 1-1/2-inch, 2-Inch, or 2-112-Inch National Standard threaded connector as recommended by the Water Committee Chairman and/or the Fire Department*":



WATER SYSTEMS



Water Wells - This development utilizes two (2) water wells that are located adjacent to the Kern River in Kernville. Water well #1 uses a new submersible 10.0 HP pump with a well depth of approximately 81 feet¹. Water well #2 utilizes a submersible 7.5 HP pump that is approximately eight (8) years old. This well has a depth of approximately 46 feet. The board indicated that well #1 will become the main water supply for the association with well #2 used as a backup and alternate supply system.

Water well testing was not conducted during our inspections. We assumed that both systems were in good condition per the board.

The water is pumped through approximately 13,300 linear feet of four-inch (4") PVC pipe to a lower water tank site and an upper tank site in the association. This also involves a pipeline franchise through the town of Kernville. The water delivery system also includes approximately 10,400 linear feet of two-inch (2") secondary PVC pipes.



¹ Water pump and chlorinator installed in 2003

23, 000-Gallon Tank at Upper Site



WATER SYSTEMS

Water Storage Tanks - The upper site has one 23,000-gallon metal water storage tank that was repaired in 1996. This tank is approximately 35 to 37 years old.

The lower site has one 40,000gallon metal water storage tank¹ , two 10,000-gallon water storage tanks² , and two pressure pumps³. The two pressure pumps are used to stabilize the water pressure and "push" water to the upper storage tank. Each tank site uses an easement from the property owner and/or member within the association.



Pressure Pumps at Lower Site

10,000-Gallon Storage Tanks at Lower Site



40,000-Gallon Storage Tank at Lower Site

-
- 1 Installed in 1993
 - 2 Repaired in 1995
 - 3 Pumps rebuilt and new pump control system installed in 2002

APPENDIX A: RECOMMENDED MAINTENANCE

ROADS

- 2 Install culverts at areas showing water runoff across main road to help prevent excessive deterioration of the asphalt surface.
- 2 Construct a curbing system (example, asphalt curbing) at some of the road's sloped, lower areas to help channel water runoff properly into drainage culverts

APPENDIX B: TERMS & DEFINITIONS

Account Liability - funds required at different time periods that represent the accumulated wear out period of components, however not necessarily the total replacement cost

Allotment / Assessment / Contribution - monthly, quarterly, or annually funds deposited into a reserve fund account or recommended for deposit to defray future component replacement costs

Annual Allotment Increase - a percentage amount used each year to increase annual reserve allotments in order to reach future financial goals

Common Area - means the entire common interest development except the separate interests

Common Interest Development (CID) - a type of residential development classified as a condominium project, planned development, stock cooperative, or community apartment project

Component - an individual line item that has a useful life normally less than a development's building structures and requires replacement or maintenance funding

Component Expenditures - amount of funds used or projected to cover component replacement costs at various periods or cycles

Condominium Project - a subdivision type where each unit owner holds title to a separate interest (residential unit) along with an undivided interest in the common area property

Current Replacement Cost - funds required for component replacement using today's costs

Deficit / Unfunded Liability - a component's shortfall of funds determined by deducting the actual current funds from the current account liability

Earned Interest - yield amount anticipated on accumulated reserve fund accounts using an actual or average interest rate

Fully Funded - having the total current liability 100% funded using actual available funds

Funds Allocated - funds appropriated to each component account from actual cash available

Future Replacement Cost - presumed fund amounts required for component replacement using today's cost compounded annually by an assumed inflation rate

Inflation Rate - assumed percentage used to determine future component replacement costs

Normal Useful Life - total number of years a component is expected to last before replacement is required based on the assumption of proper installation and periodical maintenance, however present components may age irregularly and not achieve the total normal useful life stated

Percentage Funded - actual funds available as compared to the current component liability

Planned Development - a subdivision type where each residential lot and residence is owned by an owner in fee simple and the association usually holds title to the common area and its elements, however occasionally lot owners may own an undivided interest in the common area

Remaining Life - the estimated number of years that a component is expected to last before replacement is required based on an on-site inspection

Replacement Year - the expected replacement year based on a component's estimated remaining life

Separate Interest - refer to the Identification Of Common Area Components section, page 5

Special Assessment - funds that may be required to defray component replacement costs if present allotments prove to be inadequate

Year Installed - the year a component was placed into service

APPENDIX C: RESERVE ACCOUNT REQUIREMENTS

Summary Information for Homeowners

California Civil Code § 1365, states that a summary of the association's reserve requirements, based on the most recent study conducted pursuant to § 1365.5, must be included with the Pro Forma Operating Budget. Distribution of the operating budget to the homeowners must occur not less than forty-five (45) days or more than sixty (60) days before the beginning of the association's next fiscal year.

Section 1365 also requires a disclosure statement whether the board of directors expects to levy any special assessments to help defray replacement or maintenance costs of components the association is obligated to maintain. This section also states the procedures used for the calculation and establishment of reserve account requirements must be included with the reserve account summary.

Therefore, the following two (2) pages provide a summary of our findings and include the necessary disclosure statements. Simply attach the summary report to the operating budget before distributing to the homeowners¹.

¹ Information provided in the summary may require changes by the board of directors before issuing to the homeowners

**Reserve Account Requirements
Summary Information For
Frontier Trails Homeowners' Association - Kernville, CA**

Current Account Position as of: November 30, 2003
 Projected Year-End Account Position as of: June 30, 2004
 Development Inspection Date: February 25, 2004

The following summary information concerning this Association's "reserve account requirements" is being provided to the homeowners pursuant to the Davis-Stirling Common Interest Development Act, California Civil Code, Section 1365.

This reserve fund summary was compiled from detailed information found in the Reserve Study Analysis recently conducted by Walla Services for this Association. Various findings of the study were based on a visual inspection and evaluation of major components this Association is obligated to maintain. Sources used for estimating current replacement costs included different construction cost estimating systems, certain contractor bids and/or actual costs of any recently completed projects.

Reserve account and funding requirements found in the study were based on a calculation method that takes into account various assumptions. These assumptions included interest earnings of present and projected fund balances, future component replacement costs along with their corresponding replacement years and inflation rates. The study also projected an estimated Reserve Fund cash flow for the next twenty (20) years.

Based on this information, the Board of Directors does not presently foresee the need to levy any special assessments to the homeowners to help defray the repair, replacement, or restoration of major components, if the study's recommended funding plan is followed and all assumptions are realized. However, special assessments may be required if present funding levels are not increased periodically.

The complete Reserve Study Analysis, that was conducted for this Association (pursuant to Civil Code, Section 1365.5), is on file with the Association's records.

RESERVE ACCOUNT SUMMARY		
Estimated Total Current Replacement Costs	(all components)	\$596,050
Estimated Total Future Replacement Costs	(all components)	\$935,474
Current Financial Position Funding Level		
Reserve Account Balance		\$44,026
Reserve Account Deficit		\$177,003
Account Liability Funded		19.92%
Total Replacement Cost Funded		7.39%
Annual Account Allotment		N/A
Quarterly Account Allotment		N/A
Approved Special Assessments		\$0
Projected Year-End Financial Position		
Planned/Recommended Expenditures		\$0
Reserve Account Balance		\$44,283
Reserve Account Deficit		\$176,747
Account Liability Funded		20.03%
Study's Recommended Funding Level / Parameters(*)		
Road/Water Users Quarterly Allotment	(per lot)	\$151.20
Water Users Annual Allotment	(per lot)	\$492.60
Water Users Quarterly Allotment	(per lot)	\$123.15

(*) 5.00% ANNUAL ALLOTMENT INCREASES THEREAFTER

**Reserve Account Requirements
Summary Information For
Frontier Trails Homeowners' Association - Kernville, CA**

Major Component Listing

Component	Normal Useful Life	Estimated Remaining Life	Estimated Quantity	Estimated Unit Cost	Total Current Replacement Cost	Total Future Replacement Cost
<i>ROADS</i>						
Paved, asphalt overlay, 2" asphaltic concrete	20	18	109,236 SF	1.15 SF	125,620	213,742
Paved, asphalt structural repairs	3	1	1 LS	3,500.00 TOTAL	3,500	3,605
Paved, asphalt slurry seal, Cal-Trans Type II	7	5	109,236 SF	0.26 SF	28,400	32,918
Unpaved, decomposed granite, regrade	10	5	82,344 SF	0.35 SF	28,820	33,405
Culverts, corrugated metal pipe, 8"-10"	25	23	27 EA	400.00 EA	10,800	21,300
<i>WATER WELL NO. 1 (depth - 81 ft)</i>						
Pump Control / Electrical	20	19	1 EA	3,500.00 EA	3,500	6,134
Chlorinator	5	4	1 EA	1,500.00 EA	1,500	1,688
<i>WATER WELL NO. 2 (depth - 46 ft)</i>						
Submersible Pump, 7.5 HP	15	7	1 EA	5,200.00 EA	5,200	6,394
Pump Control / Electrical	20	12	1 EA	3,500.00 EA	3,500	4,988
<i>WATER LINES</i>						
Mains, 4", PVC schedule 40, solvent weld	30	15	13,300 LF	15.70 LF	208,810	325,159
Secondary, 2", PVC schedule 40, solvent weld	30	15	10,400 LF	9.75 LF	101,400	157,900
Fire Hydrants	35	20	12 EA	400.00 EA	4,800	8,664
Lower Site, 10,000 gal. welded tank	30	21	2 EA	5,000.00 EA	10,000	18,591
Lower Site, 40,000 gal. bolted tank	30	19	1 EA	25,000.00 EA	25,000	43,813
Lower Site, pressure pumps, 5.0 HP	10	8	2 EA	1,850.00 EA	3,700	4,686
Lower Site, pump controls / electrical	20	18	2 EA	1,500.00 EA	3,000	5,105
Upper Site, 23,000 gal. bolted tank	30	22	1 EA	15,000.00 EA	15,000	28,722
<i>MISC. COMPONENTS</i>						
Electrical Supply	25	15	2 EA	3,500.00 EA	7,000	10,900

Totals: \$596,050 \$935,474

APPENDIX D: HOMEOWNER / MEMBER RESPONSIBILITIES

The following information from this Association's By-Laws, Article VI Section 1, was included in this study to help provide a better understanding of the Members' general rights and obligations associated with their lots and to clearly separate those responsibilities from the Association's.

- 1) They are solely responsible for any and all costs incurred for any new survey and/or road construction required to install new roads from the Association's main roads to their parcels or to upgrade "spur" roads not maintained by the Association or to make such road improvements as required by the fire department. The Association may maintain any such roads upon completion.
- 2) They are solely responsible for negotiating and recording any easements required for new or upgraded roads and/or waterlines. They are also solely responsible for any and all costs incurred in this process.
- 3) They are solely responsible for any and all costs incurred in the installation of connections to the Association's main waterlines inside their parcel boundaries.
- 4) They agree that water service will be provided only to the nearest possible boundary of their parcel or in a manner designated by the Water Committee Chairman.
- 5) They agree to follow the directives of the Water Committee Chairman regarding the installation of all waterlines including those from the boundary of the property to any residence. The Water Committee Chairman shall designate the location for placement of the water meter.
- 6) They agree to install at their own expense a fire hydrant-like water connection within 500 feet, and preferably within 150 to 50 feet of any new residential structure. This connection shall be on no less than a 2-inch supply line, and preferably a 2-1/2 to 4-inch line. It shall have a 1-1/2-inch, 2-inch, or 2 1/2-inch National Standard threaded connector as recommended by the Water Committee Chairman and/or the Fire Department.
- 7) They agree to the existing locations of Association roads and water service and further agree to any such reasonable changes in road or water service locations as the Association deems necessary to improve the functioning of the system and the safety of its members.
- 8) They agree to install at their own expense a Board-approved water meter and, if required, a pressure reduction valve before water service will be supplied. They shall also agree that they own and will properly maintain the water meter.
- 9) They agree not to connect any non-Association water source to Association lines or to their own meter lines without the prior approval of the Water Committee Chairman.
- 10) They agree to install and maintain anti-siphon valves on all exterior faucets immediately upon installation.
- 11) They shall be responsible for the maintenance and/or replacement of his or her water service line from the point of the meter. This responsibility includes the connection sleeve, water meter and assembly, meter box or encasement. The Water Committee Chairman shall be notified immediately of any damage to or replacement of water service line.
- 12) They shall be responsible for the installation, maintenance, and replacement of any pressure reducing devices necessary to reduce water main pressures for domestic use. Each owner shall notify the Water Committee Chairman prior to the connection to the water system. Each owner understands that any damage incurred from failure to install such device or failure of such device shall be that owner's responsibility.
- 13) They understand that Membership in the Association includes an undivided interest in the road system.
- 14) The main road is for the use of all members.
- 15) All dues and assessments must be fully paid prior to any construction occurring on any parcel. The member must be **active**. Construction includes grading and road building on the parcel.
- 16) An *individual member* will be responsible for any damage to the road or water system caused by their actions or the action of their agent or contractor.