

Executive Summary of the Reserve Study for

RAINBOW CANYON VILLAGES HOMEOWNERS ASSOCIATION

SCT Reserve Consultants is pleased to provide this Level III Reserve Study (Financial Update Report). In order to comply with the California Civil Code, specifically the Davis-Stirling Common Interest Development Act, Section 1365, we are providing the following information to the Homeowners within the RAINBOW CANYON VILLAGES HOMEOWNERS ASSOCIATION.

The following study has been prepared with several assumed factors taken into account: a 3.00% inflation rate; a 3.00% return on investment (interest earned); taxes on interest earned is paid for through the operating fund; an estimated remaining life of each reserve component; and an estimated current replacement cost of each reserve component.

Typically, any component that needs to be maintained or replaced within two years should be budgeted and paid for through normal operating or property maintenance funds and is not included as part of this study.

As of January 1, 2008, the estimated beginning reserve fund balance is \$52,000 and the estimated current replacement cost is \$67,703 of the portfolio of reserve components. The projected future replacement cost of the portfolio is \$91,735, calculated at an annually compounded inflation rate of 3.00%. The Association's level of funding which is based upon the estimated ending reserve fund balance divided by the reserve components' fully funded amount is 139.71%. This is referred to as Percent Funded. The Association would be 100.00% funded if there was \$36,251.00 in the reserve fund. These numbers, by themselves, are not a clear indicator of financial strength and could indicate underfunding, overfunding, or adequate funding.

Our original analysis of the cash flow for this association indicated future inadequate funding if there were no annual increases to the Reserves. It is our understanding the Board of Directors will allocate a total of \$400 starting in 2008 (\$0.93 per unit per month for each of the 429 units) per month towards the reserve fund. To offset the future cash shortfall we recommend and have included increases of 40.00% starting in 2022 for 1 year and 4.40% starting in 2023 for 15 years. The increase is scheduled to take effect in the year 2022. The Board of Directors may raise or lower this amount, however, it will impact the level of funding on reserves.

As required by Section 1365.a.2.d. The current deficiency (*or surplus if the number is negative*) in reserve funding expressed on a per unit basis is (\$33.56). This is calculated by subtracting the ending balance (\$50,647.00) from the 100% funded figure (\$36,251.00), then divided by the number of ownership interests (429).

The following table represents additionally required information pursuant to the Davis-Stirling Common Interest Development Act, Section 1365.

Fiscal Year: January 1, 2008 through December 31, 2008

Category	<i>Estimated Remaining Useful Lives</i>	<i>Estimated Future Replacement Cost</i>	<i>Estimated Reserve Allocation</i>	<i>Estimated Special Assessment Allocation</i>	<i>Estimated Interest</i>	<i>Fund Balance on Dec 31, 2007</i>
Electrical	1 to 6	\$6,836	\$423.20	\$0.00	\$126.08	\$4,584.84
Gas Easement	0 to 6	\$13,455	\$1,170.00	\$0.00	\$348.55	\$12,674.51
Irrigation	0 to 19	\$17,855	\$1,495.90	\$0.00	\$445.64	\$16,205.02
Monument	21 to 21	\$22,324	\$309.70	\$0.00	\$92.27	\$3,355.12
Paint	0 to 0	\$1,883	\$271.90	\$0.00	\$81.00	\$2,945.38
Pechanga Creek	10 to 22	\$10,352	\$267.70	\$0.00	\$79.74	\$2,899.63
RCWD Easement, LG	4 to 11	\$12,543	\$620.60	\$0.00	\$184.88	\$6,722.86
RCWD Easement, SM	1 to 11	\$6,487	\$241.20	\$0.00	\$71.84	\$2,612.44
Taxes			\$0.00	\$0.00	\$0.00	\$0.00
Def Expenditures			\$0.00	\$0.00	\$0.00	\$0.00
Totals:		\$91,735	\$4,800	\$0	\$1,430	\$52,000



Assessment and Reserve Funding Disclosure Summary

(As illustrated by California Civil Code Section 1365.2.5)

(1) The current regular assessment per ownership interest is \$_____ per month, of which approximately **\$0.93** is allocated to reserves.

*Note: If assessments vary by the size or type of ownership interest, the assessment applicable to this ownership interest may be found on the following page of the attached summary. **NOT APPLICABLE***

(2) Additional regular or special assessments that have already been scheduled to be imposed or charged, regardless of the purpose, if they have been approved by the board and/or members: **SEE ANSWER BELOW TO QUESTION #4 WHICH SUGGESTS THERE WILL BE INCREASES IN REGULAR ASSESSMENTS FOR RESERVE FUNDING.**

Date assessment will be due:	Amount per ownership interest per month:	Purpose of the assessment:
<i>(Intentionally left blank)</i>	<i>(Intentionally left blank)</i>	<i>(Intentionally left blank)</i>

*Note: If assessments vary by the size or type of ownership interest, the assessment applicable to this ownership interest may be found on the following page of the attached summary. **NOT APPLICABLE***

(3) Based upon the most recent reserve study and other information available to the board of directors, will currently projected reserve account balances be sufficient at the end of each year to meet the association's obligation for repair and/or replacement of major components during the next 30 years?

Yes X No X

Yes, if the Association follows the recommended future reserve contribution increases as outlined in the reserve study and disclosed in the table of question (4) with consideration to the note below*.

No, if the Association does not follow the recommended future reserve contribution increases as outlined in the reserve study and disclosed in the table of question (4) with consideration to the note below*.

**Note: The information contained within the reserve study includes estimates of replacement value and life expectancies of the components and includes assumptions regarding future events based on information provided by and supplied to the Association's Board of Directors and/or management. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to the data of this disclosure summary. Therefore, the actual replacement cost and remaining life may vary from the reserve study and the variation may be significant. Additionally, inflation and other economic events may impact the reserve study, particularly over a thirty (30) year period of time which could impact the accuracy of the reserve study and the funds available to meet the association's obligation for repair and/or replacement of major components during the next thirty (30) years. Furthermore, the occurrence of vandalism, severe weather conditions, earthquakes, floods or other acts of God cannot be accounted for and are excluded when assessing life expectancy of the components. The reserve study only includes items that the Association has a clear and express responsibility to maintain, pursuant to the Association's CC&Rs.*

(4) If the answer to (3) is No, what additional assessments or other contributions to reserves would be necessary to ensure that sufficient reserve funds will be available each year during the next 30 years that have not yet been approved by the Board or the members?

Approximate date assessment(s) will be due:	Amount per ownership interest per month:
40.00% starting in 2022 for 1 year and 4.40% starting in 2023 for 15 years	(Current amount) X (the increases)

(5) All major components are included in the reserve study and are included in its calculations.

(6) Based on the method of calculation in paragraph (4) of subdivision (b) of Section 1365.2.5, the estimated amount required in the reserve fund at the start of the current fiscal year is **\$52,000**, based in whole or in part on the last reserve study or update prepared by **SCT RESERVE CONSULTANTS** as of **January 1, 2008**. The projected reserve fund cash balance at the end of the current fiscal year is **\$50,647.00**, resulting in reserves being **139.71%** percent funded at this date. If an alternate, but generally accepted, method of calculation is also used, the required amount needed would be **\$7,583** and the Association's reserve fund balance (**\$52,000**) as of **January 1, 2008** plus contributions of \$6,230 during the fiscal year (**January 1, 2008 through December 31, 2008**) will adequately provide cash to pay for such expenditures.

Explanation: *Cash Flow Methodology - a method of developing 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 anticipated schedule of reserve expenses until the desired funding goal is achieved.*



Assessment and Reserve Funding Disclosure Summary

(As illustrated by California Civil Code Section 1365.2.5)

(continued)

7) **See below: 30-Year Reserve Funding Plan Table...** Based on the method of calculation in paragraph (4) of subdivision (b) of Section 1365.2.5 of the Civil Code, the estimated amount required in the reserve fund at the end of each of the next five budget years is \$ (see "100% Funded" column below), and the projected reserve fund cash balance in each of those years, taking into account only assessments already approved and other known revenues, is \$ (see "Cash Flow (Balance with Funding Plan" column below), leaving the reserve at (see "Percent Funded" column below) percent funding. If the reserve funding plan approved by the association is implemented, the projected reserve fund cash balance in each of those years will be \$ (see "Cash Flow (Balance with Funding Plan" column below), leaving the reserve at (see "Percent Funded" column below) percent funding. Note: The financial representations set forth in this summary are based on the best estimates of the preparer at that time. The estimates are subject to change.

30-Year Reserve Funding Plan Table

Fiscal Date: January 01, 2008 - December 31, 2008						
Year	End of Year			Revenue	Contribution % Change	Expenditures
	100% Funded	Cash Flow (Balance with Funding Plan)	Percent Funded (EOY)	Contribution Interest Spec Assess		Components Taxes Deferred Exp
2008	\$36,251	\$50,647	139.71%	\$6,230	0.00%	\$7,583
2009	\$35,750	\$50,274	140.63%	\$6,219	0.00%	\$6,592
2010	\$39,127	\$53,622	137.05%	\$6,318	0.00%	\$2,970
2011	\$42,894	\$57,204	133.36%	\$6,423	0.00%	\$2,841
2012	\$44,069	\$58,020	131.66%	\$6,447	0.00%	\$5,631
2013	\$45,039	\$58,452	129.78%	\$6,460	0.00%	\$6,028
2014	\$29,426	\$42,101	143.07%	\$5,977	0.00%	\$22,328
2015	\$35,002	\$46,739	133.53%	\$6,114	0.00%	\$1,476
2016	\$38,432	\$49,016	127.54%	\$6,182	0.00%	\$3,905
2017	\$44,564	\$53,772	120.66%	\$6,322	0.00%	\$1,566
2018	\$48,265	\$55,854	115.72%	\$6,383	0.00%	\$4,301
2019	\$42,592	\$48,311	113.43%	\$6,161	0.00%	\$13,704
2020	\$46,545	\$50,129	107.70%	\$6,214	0.00%	\$4,396
2021	\$53,548	\$54,717	102.18%	\$6,350	0.00%	\$1,762
2022	\$60,928	\$61,341	100.68%	\$8,439	40.00%	\$1,815
2023	\$68,704	\$68,411	99.57%	\$8,940	4.40%	\$1,870
2024	\$73,775	\$72,838	98.73%	\$9,375	4.40%	\$4,948
2025	\$82,299	\$80,783	98.16%	\$9,928	4.40%	\$1,983
2026	\$86,003	\$83,988	97.66%	\$10,355	4.40%	\$7,150
2027	\$92,026	\$89,594	97.36%	\$10,866	4.40%	\$5,260
2028	\$89,808	\$87,050	96.93%	\$11,152	4.40%	\$13,696
2029	\$70,477	\$67,494	95.77%	\$10,953	4.40%	\$30,509
2030	\$60,171	\$57,074	94.85%	\$11,040	4.40%	\$21,460
2031	\$69,508	\$66,433	95.58%	\$11,727	4.40%	\$2,368
2032	\$71,393	\$68,481	95.92%	\$12,218	4.40%	\$10,170
2033	\$68,582	\$65,997	96.23%	\$12,592	4.40%	\$15,076
2034	\$59,550	\$57,456	96.48%	\$12,809	4.40%	\$21,350
2035	\$52,654	\$51,245	97.32%	\$13,115	4.40%	\$19,326
2036	\$58,528	\$58,015	99.12%	\$13,824	4.40%	\$7,054
2037	\$69,280	\$69,895	100.89%	\$14,708	4.40%	\$2,828
30-Year Sum:				\$269,841		\$251,946

