

HARTMANN INC.

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DATE: December 30, 2008

TO: Al Simonelli
Hillcrest Community Executives

FROM: Nancy Hartmann

COMMENTS:

The Reserve Study Report and key for the Terrace Village Maintenance Corporation are enclosed. The estimated useful lives of the reserve components are based on general standards and reasonable expectations. A review of the complex and the reserves must be completed at least annually in order to update the reserve data based on current conditions.

The Assessment and Reserve Funding Disclosure Summary is also included.

I spoke with the elevator servicing company concerning the building's elevator condition. Line items are in reserves for the eventual modernization of the elevator's systems along with a car renovation allowance. The jack/cylinder system may last indefinitely and it is impossible to estimate the remaining life. However, since the building was constructed over thirty years ago, the jack has had a considerable amount of use and if it required replacement would have an estimated cost of between \$45,000 and \$75,000. In the near future, it would be conservative to add the eventual jack replacement to the reserves.

Please feel free to contact me if there are any questions.

Thank you for your cooperation.

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Assessment and Reserve Funding Disclosure Summary

Terrace Village Maintenance Corporation

October 31, 2008

(1) The current regular assessment per ownership interest is \$variable per month. Note: If assessments vary by size or type of ownership interest, the assessment applicable to this ownership interest may be found on page 3 of the attached summary.

(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:

| Date assessment is due: | Amount per ownership interest per month or year: (If assessments are variable, see note immediately below): | Purpose of the assessment: |
|-------------------------|--|----------------------------|
| None known | | |
| | | |
| | Total: | |

Note: If assessments vary by the size or type of ownership interest, the assessment applicable to this ownership interest may be found on page N/A of the attached report.

(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 ___ No ✓

(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 been approved by the board or the members?

| Approximate date assessment will be due: | Amount per unit per month: |
|--|----------------------------|
| See NOTE 2 on page 2 | |
| | Total: |

(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 end of the fiscal year is **\$124,735** based in whole or in part on the last reserve study or update prepared by Hartmann Inc. The projected reserve fund cash balance at the end of the current fiscal year is **\$50,475**, resulting in reserves being **40** percent funded at this date. If an alternate, but generally accepted, method of calculation is also used, the required reserve is \$N/A. (See attached explanation)

(7) 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:

| Budget Year End | Estimated Amount of Required Reserves (See Note 1) | Projected Reserve Cash Balance (See Note 1) | Percent Funded (See Note 1) |
|-----------------|---|--|--------------------------------|
| 2009 | \$141,963 | \$55,631 | 39% |
| 2010 | \$163,491 | \$65,087 | 40% |
| 2011 | \$175,499 | \$65,023 | 37% |
| 2012 | \$197,027 | \$74,479 | 38% |
| 2013 | \$216,380 | \$81,760 | 38% |

NOTE 1: This takes into account only assessments already approved and other known revenues.

NOTE 2: 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.

All estimates of expected useful lives of the reserve components found in the Reserve Study Report for this development are the result of calculations and assumptions based on average conditions along with a high quality program for routine maintenance of these components. Acts of God, floods, war, unusual weather conditions, vandalism, inflation, unexpected price changes for labor and/or materials due to various market influences, unusual wear, and board decisions may substantially impact and affect the actual costs and useful lives of common area components. The evaluation of the various reserve components is based on the assumption that each phase of the construction process was completed while meeting existing building code requirements and accepted industry standards in effect at the time of construction. There has been no core sampling or other invasive examination of any reserve component.

If conditions are more favorable than anticipated, then the estimated useful lives of the reserve components may be longer than expected with the resultant effect being a reduction in replacement funding requirements. Conversely, conditions which are less favorable than anticipated will cause the estimated useful lives to be shorter than expected and will create a need to increase the funding for replacements.

Therefore, a projected schedule for 30 years to specify what assessments may or may not be required cannot be determined. Special assessments may or may not be required depending on future conditions. In addition, the association is required by California Civil Code §1365.5 to review, on at least a quarterly basis, the actual reserve revenues and operating expenses compared to the current year's budget. Furthermore, a new Reserve Study Report must be prepared at least once every 3 years that includes an on site reappraisal of the common area components.

- (1) "Estimated remaining useful life" means the time reasonably calculated to remain before a major component will require replacement.
- (2) "Major component" has the meaning used in Section 1365.5. Components with an estimated remaining useful life of more than 30 years may be included in a study as a capital asset or disregarded from the reserve calculation, so long as the decision is revealed in the reserve study report and reported in the Assessment and Reserve Funding Disclosure Summary.
- (3) The form set out in subdivision (a) shall accompany each pro forma operating budget or summary thereof that is delivered pursuant to this article. The form may be supplemented or modified to clarify the information delivered, so long as the minimum information set out in subdivision (a) is provided.
- (4) For the purpose of the report and summary, the amount of reserves needed to be accumulated for a component at a given time shall be computed as the current cost of replacement or repair multiplied by the number of years the component has been in service divided by the useful life of the component. This shall not be construed to require the board to fund reserves in accordance with this calculation.

Variable Assessment Schedule

| Unit Numbers | Assessment |
|--|------------|
| 10, 11, 12, 13, 19, 21, 22, 23, 29, 31, 32, 33, 39 | \$205.03 |
| 14, 24, 34, | 228.38 |
| 15, 17, 18, 20, 25, 27, 28, 30, 35, 37, 38 | 218.00 |
| 16, 26, | 210.23 |
| 36 | 210.03 |