RESERVE ADVISORS

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RESERVE ADVISORS
Long-term thinking. Everyday commitment.

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November 16, 2009

The Jonathan Association
Chaska, Minnesota

EXECUTIVE SUMMARY

At the direction of the Board that recognizes the need for proper reserve planning, we have conducted a *Precision 20/20 Full Reserve Study* of The Jonathan Association (The Jonathan) located in Chaska, Minnesota and submit our findings in this report. The effective date of this study is the final date of our visual, noninvasive inspection, October 30, 2009. This Reserve Study is a budget planning tool that identifies the current status of the reserve fund and a stable and equitable Reserve Funding Plan to offset the anticipated future major common area expenditures.

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

Physical Analysis

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

Financial Analysis

- Fund Status
- Funding Plan

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

The Jonathan Association is a master association which is responsible for the common elements shared by approximately 3,000 units. The Association was built beginning in the 1960's and portions of Cloverfield were not complete at the time of our inspection. However, the majority of the infrastructure was complete at the time of our inspection. The development contains walking paths, mail pavilions, clubhouses, playgrounds and signage. We identify 116 major common elements that are likely to require capital repair or replacement during the next 30 years.

The unaudited cash status of the reserve fund, as of October 20, 2009, as reported by Management is $133,931. If the Association were to continue to fund reserves at its 2010 budgeted amount of $200,744, the reserve fund would incur a potential shortage by 2029.

The Funding Goal of this Reserve Study is to keep the reserve balance above an adequate, not excessive threshold when reserves are needed the most due to one or more years of significant expenditures. Our recommended Funding Plan recognizes these threshold or critical points in 2013 and 2029.

The Jonathan can fund capital repairs and replacements in any combination of the following:

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

We do not advocate special assessments or loans unless near term circumstances dictate otherwise. Although loans provide a gradual method of funding a replacement, the costs are higher than if the Association were to accumulate reserves ahead of the actual replacement. Interest earnings on reserves also accumulate in this process of saving or reserving for future replacements, thereby defraying the amount of gradual reserve collections. We advocate the third method of *Level Monthly Reserve Assessments* with relatively minor annual adjustments. The method ensures that homeowners pay their "fair share" of the weathering and aging of the commonly owned property each year. Level reserve assessments preserve the property and enhance the resale value of the homes.

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

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

We identified the anticipated Reserve Expenditures for Reserve Components during the next 30 years as either near term or long term. *Near term* expenditures relate to capital needs from now through 2014, the next five years beyond this current fiscal year. These *near term* expenditures comprise $1,114,637, or about eighteen percent (17.7%), of the next 30 years of

Exhibit B *Reserve Expenditures*. The current needs are more important when compared with expenditures beyond the next five years and tend to govern the amounts of recommended Reserve Contributions. The current Reserve Expenditures relate primarily to replacement of the walking paths.

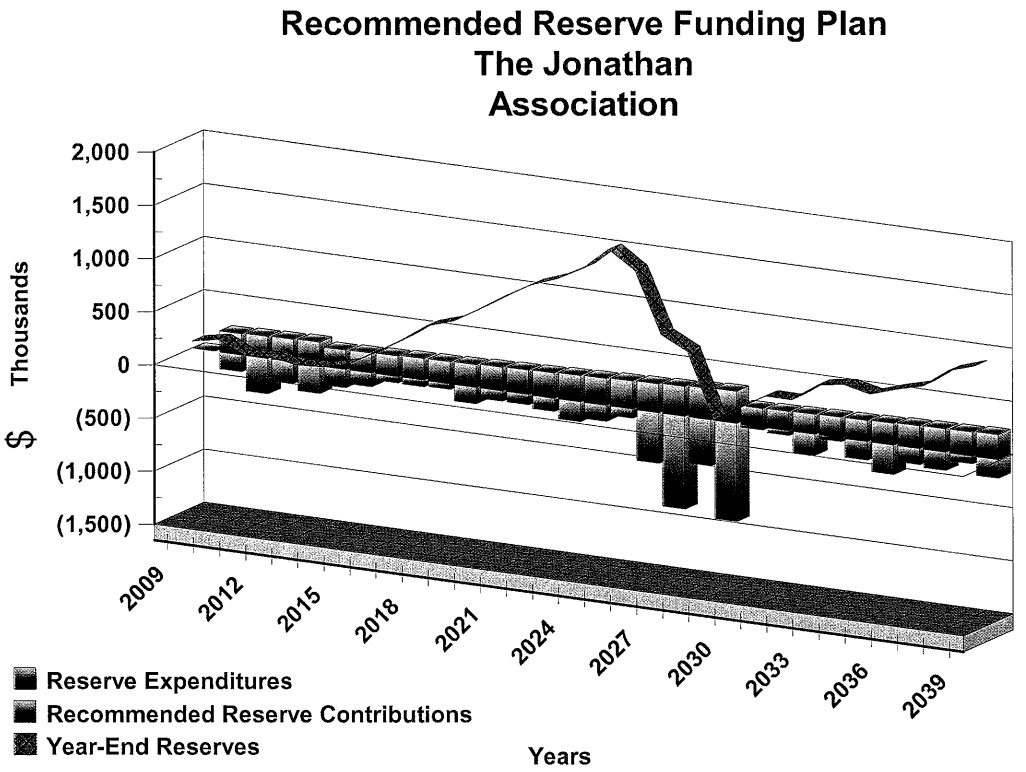
The Association budgeted $200,744 for Reserve Contributions in 2010[1]. We recommend that the Association budget Reserve Contributions of $210,700 in 2011, $215,700 in 2012 and $220,700 in 2013. By 2014, the Association will have funded for replacement of the majority of the walking paths. Therefore, the Association can anticipate a decrease in Reserve Contributions to $183,000. From 2015 through 2029, the Association should budget gradual annual increases in reserve funding, that in part consider the effects of inflation. By 2030, following the replacement of the majority of the metal playgrounds, the Association can again anticipate a decrease in Reserve Contributions to $175,000. Afterwards, the Association should budget gradual annual increases in reserve funding, that in part consider the effects of inflation. These contributions will maintain the Reserve Fund for the major expenditures as identified in **Exhibit B**. **Exhibit B *Reserve Funding Plan*** enumerates the details regarding recommended annual Reserve Contributions and projected year end reserve balances.

[1]The Fiscal Year (FY 2010) for The Jonathan begins October 1, 2009 and ends September 30, 2010. For brevity, we refer to the Fiscal Year by its ending year, i.e. Fiscal Year 2009-10 is FY 2010 or simply 2010.

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

Recommended Reserve Contributions

Year	$	Year	$	Year	$
2010	200,744	2020	223,700	2030	175,000
2011	210,700	2021	231,300	2031	181,000
2012	215,700	2022	239,200	2032	187,200
2013	220,700	2023	247,300	2033	193,600
2014	183,000	2024	255,700	2034	200,200
2015	189,200	2025	264,400	2035	207,000
2016	195,600	2026	273,400	2036	214,000
2017	202,300	2027	282,700	2037	221,300
2018	209,200	2028	292,300	2038	228,800
2019	216,300	2029	302,200	2039	236,600



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

Respectfully submitted on November 16, 2009 by
RESERVE ADVISORS, INC.

Michelle A. Stephans

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[2] PRA (Professional Reserve Analyst) is the professional designation of the Association of Professional Reserve Analysts. Learn more about APRA at http://www.apra-usa.com.

[3] RS (Reserve Specialist) is the reserve provider professional designation of the Community Associations Institute (CAI) representing America's more than 300,000 condominium, cooperative and homeowners associations.

NARRATIVE REPORT

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

The Jonathan Association

Chaska, Minnesota

and submit our findings in this report. The effective date of this study is the final date of our visual, noninvasive inspection, October 30, 2009.

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

This Reserve Study uses a 30-year Cash Flow Analysis to project and illustrate the Reserve Funding Plan. National standards[4] require a Reserve Component to have a "predictable remaining Useful Life." Estimating Remaining Useful Lives and Reserve Expenditures beyond 30 years is often indeterminate and may involve more than one life cycle for a particular Reserve Component. Construction inflation can also vary greatly over many years.

[4] Identified in the APRA "Standards - Terms and Definitions" and the CAI "Terms and Definitions".

Manner of Report Presentation

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

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

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

Exhibit A *Photographs* documents the conditions of various property components as of the final date of our visual inspection, October 30, 2009. The Condition Assessment contains references to these photographs.

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

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

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

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

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

Considerations and Methodology

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

A 2009 ending Reserve Balance of $133,931 as of October 20, 2009

A 2010 budgeted Reserve Contribution of $200,744

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

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

Local[5] costs of material, equipment and labor

The current and future costs of replacement for the Reserve Components

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

Local economic conditions and a historical perspective to arrive at our estimate of long term future inflation for *construction costs* in Chaska, Minnesota at an annual inflation rate of 3.4%

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

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

The anticipated effects of appreciation of the reserves over time in accord with an anticipated future return or yield on investment of your cash equivalent assets at an annual rate of 2.3% (We did not consider the costs, if any, of Federal and State Taxes on income derived from interest and/or dividend income)

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

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

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

Interest Rate and Inflation Data

Actual = (A)	2007:4 (A)	2008:1 (A)	2008:2 (A)	2008:3 (A)	2008:4 (A)	2009:1 (A)	2009:2 (A)	2009:2 (E)
Federal Funds	4.25%	2.25%	2.25%	2.25%	1.00%	0.25%	0.25%	0.25%
90-Day Treasury Bill	3.00	1.25	1.15	1.10	0.15	0.25	0.25	0.25
1-Year Treasury Bill	3.10	1.60	1.60	1.60	1.10	0.95	0.90	0.90
10-Year Treasury Note	4.05	3.35	3.65	3.60	3.20	2.75	2.84	2.90
30-Year Treasury Bond	4.50	4.15	4.40	4.20	3.70	3.70	3.70	3.75
Consumer Price Index	4.30	4.00	4.00	5.40	0.04	0.00	0.01	0.02
National Market Savings Rates	0.75%	for Money Market Savings			2.40%	for 3-Year Certificate of Deposit		
	2.30%	for 1-Year Certificate of Deposit			2.50%	for 5-Year Certificate of Deposit		
Estimated Long Term Yield Rate for Reserve Savings 2.3%								
Estimated Long Term Inflation Rate for Future Capital Expenditures . 3.4%								4/15/09

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

Identification of Reserve Components

The Jonathan Association is a master association which is responsible for the common elements shared by approximately 3,000 units. The Association was built beginning in the 1960's and portions of Cloverfield were not complete at the time of our inspection. However, the majority of the infrastructure was complete at the time of our inspection. The development contains walking paths, mail pavilions, clubhouses, playgrounds and signage. We identify 116 major common elements that are likely to require capital repair or replacement during the next 30 years.

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

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

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

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

The Reserve Components comprise 116 line items likely to require Reserve Expenditures during the next 30 years. **Exhibit B *Reserve Expenditures*** details this first class of property which we summarize as follows:

Neighborhood #1 Elements (Line Items 1 through 8)
- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Bus Shelter
- Mailboxes
- Playground Equipment
- Retaining Walls
- Signage, Entrance

Neighborhood #2 Elements (Line Items 9 through 12)
- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mailboxes
- Signage, Entrance

Neighborhood #3 Elements (Line Items 13 through 17)
- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mail Pavilion
- Mailboxes
- Signage, Entrance

Neighborhood #4 Elements (Line Items 18 through 24)
- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mail Pavilion
- Mailboxes
- Playground Equipment
- Signage, Entrance

Neighborhood #5 Elements (Line Items 25 through 27)

- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Signage, Entrance

Neighborhood #6 Elements (Line Items 28 through 35)

- Asphalt Pavement, Basketball Court, Total Replacement
- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mail Pavilions and Bus Shelters
- Mailboxes
- Playground Equipment
- Signage, Entrance

Neighborhood #7 Elements (Line Items 36 through 42)

- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mail Pavilions
- Mailboxes
- Playground Equipment
- Signage, Entrance

Neighborhood #8 Elements (Line Items 43 through 49)

- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mail Pavilions
- Mailboxes
- Playground Equipment
- Retaining Wall
- Signage, Entrance

Neighborhood #9 Elements (Line Items 50 through 55)

- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mail Pavilion
- Mailboxes
- Playground Equipment
- Signage, Entrance

Neighborhood #10 Elements (Line Items 56 through 62)

- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mail Pavilions

- Mailboxes
- Playground Equipment
- Signage, Entrance

Neighborhood #11 Elements (Line Items 63 through 70)

- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mail Pavilions
- Mailboxes
- Playground Equipment
- Retaining Walls
- Signage, Entrance

Neighborhood #12 Elements (Line Items 71 through 76)

- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mail Pavilions
- Mailboxes
- Playground Equipment
- Signage, Entrance

Cloverfield Elements (Line Items 77 through 85)

- Concrete Walking Paths
- Mail Pavilions and Bus Shelters
- Mailboxes
- Playground Equipment
- Signage, Entrance
- Trellis

Autumn Woods Elements(Line Items 86 through 94)

- Asphalt Pavement, Walking Paths, Crack Repair and Patch
- Asphalt Pavement, Walking Paths, Total Replacement
- Mail Pavilions
- Mailboxes
- Playground Equipment
- Signage, Entrance

Karen House Elements (Line Items 95 through 98)

- Building Services Equipment
- Interior Renovations
- Roof, Asphalt Shingles
- Windows

Pavilion Elements (Line Items 99 through 101)

- Roof, Asphalt Shingles
- Walls, Wood Siding, Paint Finish Applications
- Walls, Wood Siding, Replacement

Eitel House Elements (Line Items 102 through 107)

- Building Services Equipment
- Exterior Renovations
- Interior Renovations
- Roof, Asphalt Shingles
- Windows

Property Site Elements (Line Items 108 through 116)

- Asphalt Pavement, Parking Areas, Crack Repair, Patch and Seal Coat
- Asphalt Pavement, Parking Areas, Repaving
- Gazebo
- Light Poles and Fixtures
- Pavers, Brick
- Retaining Walls
- Signage
- Windmills
- Storage Facility

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

- Electrical Systems
- Foundations
- Pipes, Subsurface Utilities
- Structural Frames

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

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

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

- General Maintenance to the Common Elements
- Benches, Picnic Tables, Grills and Trash Cans
- Concrete Sidewalks and Metal Railings, Karen and Eitel Houses
- Exterior Renovations, Eitel House, Subsequent
- Exterior Renovations, Karen House
- Golf Carts, Chipper and Skidsteer
- Irrigation Systems
- Landscape
- Mailbox Pavilions, Paint Finishes, Interim
- Obelisk
- Paint Finishes, Touch Up
- Pavilion, Interiors
- Pavilion, Windows and Doors
- Silo, Paint Finish Applications and Capital Repairs
- Wood Porch, Karen House
- Other Repairs normally funded through the Operating Budget

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

- Homes and Lots

Certain items have been designated as the responsibility of others to repair or replace. Property Maintained by Others relates to:

- Art and Sculptures (Municipality)
- Light Poles and Fixtures (Municipality)
- Ponds (Municipality and Sub Associations)
- Retaining Walls, except those maintained by The Jonathan (Municipality and Sub Associations)
- Roadway Underpass Structures (Municipality)
- Signage, Sub Association (Sub Associations)
- Walking Paths, except those maintained by The Jonathan (Municipality)
- Wood and Asphalt Steps, Pavilion (Sub Associations)

Condition Assessment

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

Neighborhood Elements

Asphalt Pavement, Walking Paths, Crack Repair and Patch - Asphalt pavement comprises 51,220 linear feet of walking paths throughout the community. The age of the pavement was not available at the time of our inspection. However, we observe various pavement conditions. The pavement at Neighborhoods #1 through #11 and Autumn Woods are in fair overall condition with significant cracks and areas of deterioration. The pavement at Neighborhood #12 are in good to fair overall condition with a limited amount of deterioration. See Pages 1 and 2 of **Exhibit A *Photographs*** for examples of the walking paths. The Association should plan repairs to the pavement every three- to five-years.

Proposals should include both crack repair and area patching. These activities reduce water infiltration and the effects of inclement weather. We detail the quantities and our recommendations regarding timing of cracks repairs and patching in the following table:

Neighborhood	Quantity (LF)	First Year of Recommended Activity	Neighborhood	Quantity (LF)	First Year of Recommended Activity
1	12,000	2015	8	3,600	2017
2	230	2014	9	3,000	2016
3	2,000	2016	10	2,500	2017
4	490	2014	11	8,000	2017
5	1,200	2015	12	1,350	2011
6	4,500	2015	Autumn Woods	3,700	2018
7	7,400	2015			

Subsequent applications for all neighborhoods are likely every four years thereafter except when repaving occurs. Line Items 1, 9, 13, 18, 25, 29, 36, 43, 50, 56, 63, 71 and 86 of **Exhibit B** ***Reserve Expenditures*** note our estimate of future costs and anticipated times of seal coat applications.

Asphalt Pavement, Walking Paths, Total Replacement - As noted in the previous section, asphalt pavement comprises 51,220 linear feet of walking paths throughout the community. The age of the pavement was not available at the time of our inspection. However, we observe various pavement conditions. The pavement at Neighborhoods #1 through #11, and Autumn Woods are in fair overall condition with significant cracks and areas of deterioration. The pavement at Neighborhood #12 are in good to fair overall condition with a limited amount of deterioration. Walking path asphalt pavement is typically not as thick as parking area or street asphalt pavement. This type of pavement application has higher potential for deterioration from tree roots, settlement and development of cracks. The need to maintain a safe pedestrian surface results in a useful life of up to 15 year for walking path asphalt pavement.

We include the following solutions and procedures pertaining to ***components*** of the pavement, the ***manner of repaving***, ***time*** of repaving and ***coordination*** of other possible replacements with the repaving for the benefit of the present and future board members.

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

The ***time*** of replacement is dependent on the useful life, age and condition of the pavement. The useful life of up to 15 years is dependent in part on the maintenance applied to the pavement and detrimental effects of inclement weather. The Jonathan should repair any isolated areas of deteriorated pavement concurrent with crack repairs and patching events. We detail our recommendation regarding total replacement of the walking paths in the following table.

Neighborhood	Year(s) of Initial Repaving	Neighborhood	Year(s) of Initial Repaving
1	Phased 2011-2020	8	2013
2	2010	9	2012
3	2012	10	2013
4	2010	11	2013
5	2011	12	2021
6	2011	Autumn Woods	2014
7	2011		

We recommend subsequent repaving events every 15 years thereafter. We depict this information on Line Items 2, 10, 14, 19, 26, 30, 37, 44, 51, 57, 64, 72 and 87 of **Exhibit B** ***Reserve Expenditures***.

Concrete Walking Paths - The Association maintains approximately 30,000 square feet of concrete walking paths at Cloverfield. The paths are in good condition with only minor deterioration evident. The concrete walking paths have useful lives of up to 65 years although premature deterioration of isolated areas of concrete is common. Inclement weather, inadequate subsurface preparation and improper concrete mixtures or finishing techniques can result in premature deterioration such as settlement, chips, cracks and spalls. Variable conditions like these result in the need to plan for periodic partial replacements of the concrete walking paths throughout the next 30 years.

We estimate that up to 7,500 square feet of concrete walking paths, or twenty-five percent (25%) of the total, will require replacement during the next 30 years. We recommend the Association budget for replacement of 1,250 square feet of concrete walking paths every five years beginning by 2014. Line Item 77 of **Exhibit B** ***Reserve Expenditures*** notes our estimate of future costs and anticipated times of replacements. We recommend an annual inspection of the concrete walking paths to identify potential trip hazards. We suggest that the Association grind down or mark these hazards with orange safety paint prior to replacement and fund this ongoing activity through the operating budget.

Mail Pavilions and Bus Shelters, Refurbishment - The Association maintains mail pavilions and bus shelters throughout the Association. The 32 mail pavilions and bus shelters are primarily wood construction with asphalt shingle roofs. The pavilions and shelters vary greatly in age. The Association recently completed a refurbishment of the pavilions and shelters which included paint finish applications and replacement of deteriorated wood and roofs, as needed, in 2009. Their *overall* condition is good with isolated wood and roof deterioration. We anticipate refurbishment of the mail pavilions and bus shelters by 2027. This remaining useful life is dependent on interim paint finish applications every four- to six-years, funded through the operating budget. We include these anticipated expenditures on Line Items 3, 15, 20, 31, 38, 45, 52, 58, 65, 73, 78 and 88 of **Exhibit B *Reserve Expenditures***

Mailboxes - The Association maintains a total of 124 metal mailbox stations, 22 metal mailbox stations with wood frames, four metal mailboxes with masonry pedestals and 21 sets of cluster mailboxes. The mailboxes vary in condition from fair to good. The mailboxes have a useful life of up to 25 years. However, the cluster mailbox stations have a slightly shorter useful life of up to 20 years. We detail our recommendations related to timing of replacements in the following table.

Neighborhood and Description	Quantity	Year of Initial Replacement	Neighborhood and Description	Quantity	Year of Initial Replace
1-metal	7	2028	10- metal	7	2019
1-metal w/ wood	3	2015	10-metal, free standing	2	2012
2-metal w/ wood	1	2018	11-metal	20	2023
3-metal	8	2019	12-metal	5	2028
4-metal	7	2017	C-metal	27	2028
4-metal w/ wood	1	2017	C-metal w/ wood frame	13	2028
6-metal, Bavarian	5	2019	C-metal cluster	19	2023
6-NH#6	3	2028	A-metal	4	2028
7-metal	18	2015	A-metal w/ wood frame	4	2028
8-metal	7	219	A-metal w/ masonry	4	2015
9-metal	4	2015	A-metal cluster	2	2028

Note: C=Cloverfield and A= Autumn Woods

We recommend subsequent replacement of the mailboxes every 25 years thereafter. The exception is the cluster mailboxes, which require replacement every 20 years. The operating budget should fund interim replacements of posts and the mailboxes at the cluster mailboxes, as needed. We include these anticipate expenditures on Line Items 4, 5, 11, 16, 21, 22, 32, 33, 39, 46, 53, 59, 60, 66, 74, 79, 80, 81, 89, 90, 91 and 92 of **Exhibit B *Reserve Expenditures***. The Association should verify the new mailboxes meet the specifications of the United States Postal Service.

Playground Equipment - The Association maintains metal and wood playground equipment throughout the Association. The playground equipment varies greatly in age and condition. Safety is the major purpose for maintaining playground equipment. We recommend an annual inspection of the playground equipment to identify and repair as normal maintenance loose connections and fasteners or damaged elements. Playworld Systems[6] is a leading innovator of modular playground equipment. We suggest the Association learn more about the specific requirements of playground equipment at http://www.playworldsystems.com. We recommend

[6] Reserve Advisors, Inc. does not have any financial or other interest in this company and includes this reference for informational purposes only.

the use of a specialist for the design or replacement of the playground equipment environment. Playground equipment of this type has a useful life of 15- to 25-years. Based on the age and condition of the playground equipment, we include our recommendations related to timing of replacements in the following table

NH	Quantity	Year(s) of Initial Replacement	NH	Quantity	Year(s) of Initial Replacement
1	1	2029	10	1	2029
4	1	2021	11	3	2014 & 2029
6	1	2024	12	1	2029
7	2	2015 & 2029	Cloverfield	6	2029
8	1	2029	Autumn	2	2027
9	1	2029			

We recommend subsequent replacement of the metal playground equipment every 25 years and every 18 years for the wood playground equipment. Our estimates of cost include repaving of the basketball courts and replacement of trash cans and benches. The exception is the basketball court at Neighborhood #6 which requires separate replacement. We include this information on Line Items 6, 23, 34, 40, 41, 47, 54, 61, 67, 68, 75, 82 and 93 of **Exhibit B *Reserve Expenditures*.**

Retaining Walls - The Association maintains retaining walls throughout the property that we detail below:

- Neighborhood #1- 360 square feet, timber, poor condition
- Neighborhood #8- 400 square feet, stone masonry, fair condition
- Neighborhood #11- 120 square feet, interlocking masonry, good condition
- Pavilion- 340 square feet, timber, fair to poor condition

Timber retaining walls have useful lives of up to 25 years. Stone masonry and interlocking retaining walls have useful lives of up to 35 years. We recommend replacement of the walls at Neighborhood #1 by 2011 and again by 2036, the walls at Neighborhood #8 by 2014, and the walls at Neighborhood #11 by 2034. We depict this information on Line Items 7, 48 and 69 of **Exhibit B *Reserve Expenditures***. We recommend replacement of the stone masonry retaining walls at Neighborhood #8 with interlocking masonry walls at the time of replacement.

Signage, Entrance - The Association maintains various combinations of wood, masonry and metal signs throughout the community. The ages of the signs were not available at the time of our inspection. The wood signs at Neighborhoods #1 through #11 are in fair condition with wood deterioration evident. The remaining signs are in good to fair overall condition with only minor deterioration. See Pages 8 and 9 of **Exhibit A *Photographs*** for examples of the signs. The community signs contribute to the overall aesthetic appearance to owners and potential buyers. Replacement or renovation of community signs is often predicated upon the desire to "update" the perceived identity of the community rather than for utilitarian concerns. Therefore, the specific times for the replacement or renovation of the signs is discretionary. We recommend the Association renovate or replace the signs every 15- to 20-years. We detail the descriptions, quantities and our recommended times of replacements in the table below.

Neighborhood / Description	Quantity	Year of Initial Replacement/ Renovation	Neighborhood/ Description	Quantity	Year of Initial Replacement /Renovation
1- wood	1	2016	9- wood	2	2016
2- wood	1	2016	10- stucco	2	2025
3- wood	1	2016	11- wood/masorny	3	2024
4- wood	1	2016	12- masonry	2	2024
5- wood	1	2016	C- wood	1	2024
6- wood	2	2016	C- masonry	2	2024
7- wood	2	2016	A-stucco	6	2023
8- wood	4	2016			

Note: C=Cloverfield and A= Autumn Woods

We recommend subsequent replacements or renovations of the signs every 18 years thereafter. Renovations include repairs to the brick masonry and replacement of the metal and concrete signs, lettering and fences. We note this information on Line Items 8, 12, 17, 24, 27, 35, 42, 49, 55, 62, 70, 76, 83, 84 and 94 of **Exhibit B *Reserve Expenditures***.

Trellis - The Association maintains a wood trellis with masonry columns and brick paver walkways at Cloverfield. The wood trellis comprises 420 square feet and the brick pavers comprise 400 square feet. The trellis and related elements are in good to fair condition at an unknown age. Wood structures exposed to weather have a useful life of 15- to 20-years. We recommend The Jonathan budget for replacement of the wood elements of the trellis, replacement of the brick pavers, and repairs to the masonry as needed by 2017 and again by 2035. We depict this information on Line Item 85 of **Exhibit B *Reserve Expenditures***.

Karen House Elements

Building Services Equipment - The Karen House building services equipment includes a remote condensing unit, a gas-fired forced air furnace and a water heater. The building services

equipment components are in good to fair visual condition. The useful life of residential size units is from 12- to 18-years. We recommend the Association anticipate the replacement of these building services components by 2018 and again by 2033. We base our cost on Line Item 95 of **Exhibit B** ***Reserve Expenditures*** on a 13 SEER (seasonal energy efficiency ratio) condensing unit as required by The Department of Energy since January of 2006.

Interior Renovations - The Karen House interior comprises paint finishes, carpet floor coverings, vinyl floor coverings, plumbing and lighting fixtures, kitchenette cabinets and countertops, and various appliances and furnishings. The Karen House interior elements are in good to fair overall condition at their varied ages. The useful lives of these interior building elements vary. However, due to interrelated nature of these elements and the desire to achieve a uniform appearance, we recommend the Association coordinate their replacements into interior renovations.

We recommend the Association anticipate interior renovations every ten years. These renovations should include the following:

- Application of paint finish to all surfaces
- Replacement of the carpet and other floor coverings
- Replacement of up to twenty-five percent (25%) of the plumbing fixtures, light fixtures, kitchenette cabinets and countertops, and appliances and furnishings

Based on the visual condition of these interior elements, we recommend the Association budget for the coordinated interior renovation by 2015 and every ten years thereafter. Line Item

96 of **Exhibit B *Reserve Expenditures*** notes our estimate of future costs and anticipated times of interior renovations.

Roof, Asphalt Shingles - The Karen House roof comprises 12 *squares*[7] of asphalt shingles and 315 linear feet of gutters and downspouts. The roof is in fair to poor condition with significant shingle deterioration. The useful life of an asphalt shingle roof is from 15- to 20-years. We recommend the Association anticipate complete replacement of the Karen House roof by 2011 and again by 2029, including replacement of the gutters and downspouts. We note this information on Line Item 97 of **Exhibit B *Reserve Expenditures***.

Windows - The windows at the lower level of the Karen House appear newer and are in good overall condition. With a useful life of up to 35 years, we do not anticipate their replacement in the next 30 years. The 200 square feet of upstairs windows appear older and are in fair condition. The useful life of the windows is based on the occurrence of water infiltration, thermal inefficiencies compared to present technology, type of frame, availability of replacement parts and aesthetics. Based on these factors, we recommend the Association anticipate replacement of the remaining windows by 2019. We depict this information on Line Item 98 of **Exhibit B *Reserve Expenditures***.

Pavilion Elements

Roof, Asphalt Shingles - The Pavilion roof comprises 25 squares of asphalt shingles. The roof is in good condition. The useful life of an asphalt shingle roof is from 15- to 20-years. We recommend the Association anticipate complete replacement of the Pavilion roof by 2024. We note this information on Line Item 99 of **Exhibit B *Reserve Expenditures***.

[7] We quantify the roof area in *squares*, where one square is equal to 100 square feet of surface area.

Walls, Wood Siding, Paint Finishes - The Pavilion utilizes 2,050 square feet of wood siding. The paint finishes are in fair overall condition at an unknown age. Periodic application of paint every four- to six-years is necessary to maximize the useful life of the siding. Based on the condition of the paint finishes, we recommend the next paint finish application by 2013 and every five years thereafter except when siding replacement occurs. We include this anticipate expenditure on Line Item 100 of **Exhibit B *Reserve Expenditures***

Walls, Wood Siding, Replacement - As noted in the previous section, the Pavilion utilizes 2,050 square feet of wood siding. The siding is in fair overall condition at an unknown age. The siding has a useful life of up to 35 years. With the benefit of paint finish applications every four- to six-years, we anticipate a remaining useful life of nine years or replacement by 2018. Line Item 101 of **Exhibit B *Reserve Expenditures*** notes this anticipated expenditure.

Eitel House Elements

Building Services Equipment - The Eitel House services equipment includes a gas-fired forced air furnace and a water heater. We also understand that the Eitel House has radon issues and is currently not in use. The useful life of residential size units is from 12- to 18-years. We recommend the Association anticipate the replacement of these building services and installation of radon ventilation components by 2012. Subsequent replacement is likely by 2036. Line Item 102 of **Exhibit B *Reserve Expenditures*** notes these anticipated expenditures.

Exterior Renovation - The Eitel House exterior comprises brick masonry, and wood soffits and fascia. The Eitel House exterior elements are in fair to poor overall condition. We observe significant masonry cracks and mortar deterioration. Due to the significant deterioration

evident, we recommend near term renovation of the Eitel House. We recommend repointing of up to twenty percent (20%) and partial replacement of up to five percent (5%) of the masonry, and paint finish applications to the wood soffits and fascia by 2012. The operating budget should fund subsequent, less significant, renovations to the Eitel House. Line Item 103 of **Exhibit B *Reserve Expenditures*** notes our estimate of future cost and anticipated time of Eitel House exterior renovation.

Interior Renovations - The Eitel House interior comprises paint finishes, carpet, vinyl floor coverings, and plumbing and lighting fixtures. The Eitel House interior elements are in fair to poor overall condition. Furthermore, we observe significant drywall damage at the upper level of the building. The useful lives of these interior building elements vary. We recommend the Association coordinate their replacements into either *complete* or *partial* interior renovations.

We recommend the Association anticipate complete interior renovations every 30 years. These *complete* renovations should include the following:

- Application of paint finish to all surfaces
- Replacement of all floor coverings
- Replacement of all plumbing fixtures
- Replacement of all light fixtures and furnishings
- Replacement of up to twenty percent (20%) of the drywall

Based on the age and visual condition of these interior Eitel House elements, we recommend the Association budget for the next coordinated complete interior renovation by 2012.

The Jonathan should also anticipate partial interior renovations every ten years. These *partial* renovations should include the following:

- Application of paint finish to all surfaces as needed
- Replacement of the floor coverings as needed

Based on the visual condition of these interior elements, we recommend the Association budget for coordinated partial interior renovations by 2022 and every ten years thereafter. Line Items 104 and 105 of **Exhibit B *Reserve Expenditures*** note our estimates of future costs and anticipated times of interior Eitel House interior renovations.

Roof, Asphalt Shingles - The Eitel House roof comprises 13 squares of asphalt shingles. The roof is in good condition and has a useful life of 15- to 20-years. We recommend the Association anticipate complete replacement of the Eitel House roof by 2021 and again by 2039. We note this information on Line Item 106 of **Exhibit B *Reserve Expenditures***.

Windows - The majority of the windows at the lower level of the Eitel House appear newer and are in good overall condition. With a useful life of up to 35 years, we do not anticipate their replacement in the next 30 years. The 115 square feet of upstairs windows appear older and are in fair condition. We recommend the Association anticipate replacement of the remaining windows by 2019. We depict this information on Line Item 107 of **Exhibit B *Reserve Expenditures***.

Property Site Elements

Asphalt Pavement, Parking Area, Crack Repair, Patch and Seal Coat - Asphalt pavement comprises 2,200 square yards of parking areas at the Karen House and the Eitel House. The pavement is in fair overall condition with significant deterioration evident. Parked vehicles leak motor oil and other fluids that can damage asphalt pavement. We recommend periodic *seal coat* applications to maintain the pavement. Seal coat applications minimize the damaging effects of these vehicle fluids, maintain a uniform and positive appearance, and maximize the useful life of the pavement. The Association should plan future applications every three- to five-years. We recommend the Association anticipate seal coat applications by 2014 and every four years thereafter except when repaving occurs. Line Item 108 of **Exhibit B *Reserve Expenditures*** notes our estimate of future costs and anticipated times of seal coat applications.

Asphalt Pavement, Parking Area, Repaving - As noted in the previous section, asphalt pavement comprises 2,200 square yards of parking areas at the Karen House and the Eitel House. The pavement is in fair overall condition with significant deterioration evident. The useful life of pavement in Chaska is from 15- to 20-years. We include the following solutions and procedures pertaining to ***components*** of the pavement, the ***manner of repaving***, ***time*** of repaving and ***coordination*** of other possible replacements with the repaving for the benefit of the present and future board members.

Components of asphalt pavement include native soil, aggregate and asphalt. First the contractor creates a base course of aggregate or crushed stone and native soil. The base course is individually compacted to ninety-five percent (95%) dry density prior to the application of the asphalt. Compaction assures a stable base for the asphalt that reduces the possibility of

settlement. The initial installation of asphalt uses at least two lifts, or two separate applications of asphalt, over the base course. The first lift is the binder course. The second lift is the wearing course. The wearing course comprises a finer aggregate for a smoother more watertight finish.

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

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

The ***time*** of replacement is dependent on the useful life, age and condition of the pavement. The useful life of 15- to 20-years is dependent in part on the maintenance applied to the pavement, the amounts and concentration of auto solvents that penetrate the pavement, the exposure to sunlight and detrimental effects of inclement weather. The Jonathan should repair any isolated areas of deteriorated pavement concurrent with periodic seal coat applications. Management informs us that the Association anticipates repaving of the parking areas in 2010. We recommend their subsequent repaving by 2027. We depict this information on Line Item 109 of **Exhibit B *Reserve Expenditures***.

Gazebo - The Association maintains a wood gazebo near the school at Cloverfield. The gazebo is in good condition at an unknown age. Wood structures exposed to weather have a useful life of 15- to 25-years. We recommend The Jonathan budget for its replacement by 2024 and budget for paint applications and repairs through the operating budget. We depict this information on Line Item 110 of **Exhibit B *Reserve Expenditures***.

Light Poles and Fixtures - The Association uses four metal light fixtures atop metal poles to illuminate the parking lot at the Karen House. Two of light poles and fixtures appear in good condition and two appear in fair condition. Exterior light poles and fixtures have useful lives of up to 25 years. We recommend replacement of the light poles and fixture in a phased manner beginning by 2015 and concluding by 2029. We note this information on Line Item 111 of **Exhibit B *Reserve Expenditures***.

Pavers, Brick, Resetting and Partial Replacements - The Association maintains approximately 7,900 square feet of brick pavers at the roundabout on Hundertmark Drive and at

the gazebo. The brick pavers are in good overall condition. Manufacturers construct brick pavers as a traffic surface for installation without mortar. Paving brick comprises special types of clays that are baked at higher temperatures and for a longer time than other brick types. Thus, brick pavers have greater strength and durability than common brick. Brick pavers have a long functional useful life. However, over time, the negative effects of inclement weather, erosion, snow removal equipment will create isolated areas of deterioration. We advise the Association budget for complete resetting of the brick pavers every 10- to 15-years. We include expenditures for brick paver resetting, including partial replacement of up to ten percent (10%), by 2022 and again by 2037. We depict this information on Line Item 112 of **Exhibit B *Reserve Expenditures***. We suggest the Association conduct interim resetting and replacement of minor areas of pavers as normal maintenance, funded from the operating budget.

Signage - The Association maintains three wood signs at the Karen House and the Eitel House. The wood signs are in fair condition and have a useful life of 15- to 20-years. We recommend the Association anticipate their replacement by 2016 and again by 2034 in conjunction with replacement of the other wood community signage. Line Item 114 of **Exhibit B *Reserve Expenditures*** notes these anticipate expenditures.

Windmills - The Association maintains one windmill at the Karen House and one windmill at the Eitel House. The windmills are in good to fair condition with minor rust evident. The windmills have a useful life of up to 50 years. We recommend the Association anticipate replacement by 2029. The operating budget should fund paint applications and repairs to the windmills as needed. We include this anticipate expenditure on Line Item 115 of **Exhibit B *Reserve Expenditures***.

Storage Facility - Management informs us that the Association plans to construct a new storage facility near the Karen House. We understand that this project will cost approximately $85,000 and will occur in 2010. We include this expenditure on Line Item 116 of **Exhibit B *Reserve Expenditures***

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

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

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

The Association can expense the fee for an Update with site visit from the reserve account. This fee is included in the Reserve Funding Plan. We base this budgetary amount on updating the same property components and quantities of this Reserve Study report. Budgeting for an Update demonstrates the Board's objective to continue fulfilling its fiduciary responsibility to maintain the commonly owned property and to fund reserves appropriately.

Explanation of the Exhibits

Exhibit A *Photographs* documents the conditions of various property components as of the final date of our visual inspection, October 30, 2009. The previous section, Condition Assessment, contains several references to these photographs.

Exhibit B *Reserve Expenditures and Reserve Funding Plan* covers a 30-year period. Information about the Reserve Components and Expenditures for the most relevant next 20 years (2009 through 2029) is found on convenient 11- by 17-inch foldout spreadsheets. The remaining ten years (2030 through 2039) follow in concise 8½- by 11-inch tables. Data for each Reserve Component is presented on a single row with columns of information as follows:

- Line Items are included for reference purposes
- Total Quantities are the total anticipated quantity for replacement during the next 30 years (*this is not necessarily the "total" quantity maintained by the Association as this quantity may represent more than one Useful Life cycle or a partial replacement*)
- Per Phase Quantities are the anticipated quantity for each replacement event
- Units clarify the unit of measure used to quantify the elements
- Reserve Component Inventory identifies each Reserve Component
- The Estimated First Year of Replacement is included to help the Association understand the priority of future Reserve Expenditures
- Results of the Life Analysis show both the total Useful Life and Remaining Useful Life for each Reserve Component
- Unit Cost is the cost per unit we used to calculate the per phase cost
- The 2009 Cost of Replacement Per Phase is the per phase cost in today's dollars
- The Total Future Costs of Replacement is the total cost for all phases of replacement during the next 30 years and *includes* the effects of inflation at a 3.4% annual percentage rate
- The remaining columns in Reserve Expenditures 11- by 17-inch foldout spreadsheets present the estimated future inflated costs for each for the next 20 years

- The remaining ten years of future Reserve Expenditures from years 2030 to 2039 follow in concise 8½- by 11-inch tables

Exhibit B *Reserve Funding Plan* includes the Cash Flow Analysis and recommended Reserve Contributions for the next 30 years based on the Reserve Expenditures and a 2.3% annual percentage rate earned on the average annual fund balances. The specific information found on the last 11- by 17-inch foldout spreadsheet includes:

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

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

The graph Recommended Reserve Funding Plan shows the following data points:

-- -- Recommended Reserve Balances that are the result of expenditures as matched against existing reserves and contributions to reserves


Recommended Reserve Contributions or additional assessment that increase reserves


Reserve Expenditures

The second Reserve Funding Graph titled Reserve Balances compares the recommended year-end amounts of reserves with the potential shortage of reserves if the Association were to

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

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

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

Exhibit E *Credentials* contains the Qualifications of the Firm, Responsible Advisor and Review Coordinator. Theodore J. Salgado and John P. Poehlmann are the Principals of Reserve Advisors, Inc., John C. Decker conducted the visual inspection of The Jonathan Association and Mike S. Bentley served as Review Coordinator for this Reserve Study.

CONCLUSION

At the direction of the Board that recognizes the need for proper reserve planning, we have conducted a *Precision 20/20 Full Reserve Study* of The Jonathan Association (The Jonathan) located in Chaska, Minnesota and submit our findings in this report. The effective date of this study is the final date of our visual, noninvasive inspection, October 30, 2009. This Reserve Study is a budget planning tool that identifies the current status of the reserve fund and a stable and equitable Reserve Funding Plan to offset the anticipated future major common area expenditures.

We identified the anticipated Reserve Expenditures for Reserve Components during the next 30 years as either near term or long term. *Near term* expenditures relate to capital needs from now through 2014, the next five years beyond this current fiscal year. These *near term* expenditures comprise $1,114,637, or about eighteen percent (17.7%), of the next 30 years of **Exhibit B *Reserve Expenditures***. The current needs are more important when compared with expenditures beyond the next five years and tend to govern the amounts of recommended Reserve Contributions. The current Reserve Expenditures relate primarily to replacement of the walking paths.

The Association budgeted $200,744 for Reserve Contributions in 2010[8]. We recommend that the Association budget Reserve Contributions of $210,700 in 2011, $215,700 in 2012 and $220,700 in 2013. By 2014, the Association will have funded for replacement of the majority of the walking paths. Therefore, the Association can anticipate a decrease in Reserve Contributions to $183,000. From 2015 through 2029, the Association should budget gradual annual increases

[8]The Fiscal Year (FY 2010) for The Jonathan begins October 1, 2009 and ends September 30, 2010. For brevity, we refer to the Fiscal Year by its ending year, i.e. Fiscal Year 2009-10 is FY 2010 or simply 2010.

in reserve funding, that in part consider the effects of inflation. By 2030, following the replacement of the majority of the metal playgrounds, the Association can again anticipate a decrease in Reserve Contributions to $175,000. Afterwards, the Association should budget gradual annual increases in reserve funding, that in part consider the effects of inflation. These contributions will maintain the Reserve Fund for the major expenditures as identified in **Exhibit B**. **Exhibit B *Reserve Funding Plan*** enumerates the details regarding recommended annual Reserve Contributions and projected year end reserve balances.

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

Recommended Reserve Contributions

Year	$	Year	$	Year	$
2010	200,744	2020	223,700	2030	175,000
2011	210,700	2021	231,300	2031	181,000
2012	215,700	2022	239,200	2032	187,200
2013	220,700	2023	247,300	2033	193,600
2014	183,000	2024	255,700	2034	200,200
2015	189,200	2025	264,400	2035	207,000
2016	195,600	2026	273,400	2036	214,000
2017	202,300	2027	282,700	2037	221,300
2018	209,200	2028	292,300	2038	228,800
2019	216,300	2029	302,200	2039	236,600

The Reserve Funding Plan recommends 2039 year end accumulated reserves of approximately $920,000. We judge this amount of accumulated reserves in 2039 desirable or

necessary, to fund the likely subsequent replacement of the walking paths after 2039, and in consideration of the age, size and complexity of the property. These future needs, although beyond the limit of the Cash Flow Analysis of this Reserve Study, are reflected in the amount of accumulated 2039 year end reserves.

An ongoing review by the Board and an Update of this Reserve Study in two- to three-years are necessary to ensure a continued equitable funding plan since a Reserve Study is a snapshot in time. Many variables change after the Reserve Study is conducted that may result in significant overfunding or underfunding. Examples include deferred or accelerated capital projects based on Board discretion, changes in the interest rates on reserve investments; and changes in the *local* construction inflation rate.

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

SUPPLEMENTARY INFORMATION FOR FINANCIAL STATEMENTS

The *Audit and Accounting Guide for Common Interest Realty Associations* presents recommendations on Supplementary Information on Future Major Repairs and Replacements in end of fiscal year Audits of Financial Statements for community associations[9]. Accountants use discretion and judgment on how to present the Supplementary Information on Future Major Repairs and Replacements. However, the Supplementary Information on Future Major Repairs and Replacements often references and includes excerpts from our Reserve Studies. The following table excerpts significant unaudited information from the Reserve Expenditures about Reserve Component categories and estimated current and future replacement costs based on inflation at an annual rate of 3.4%.

Unaudited Supplemental Information on Future Major Repairs and Replacements

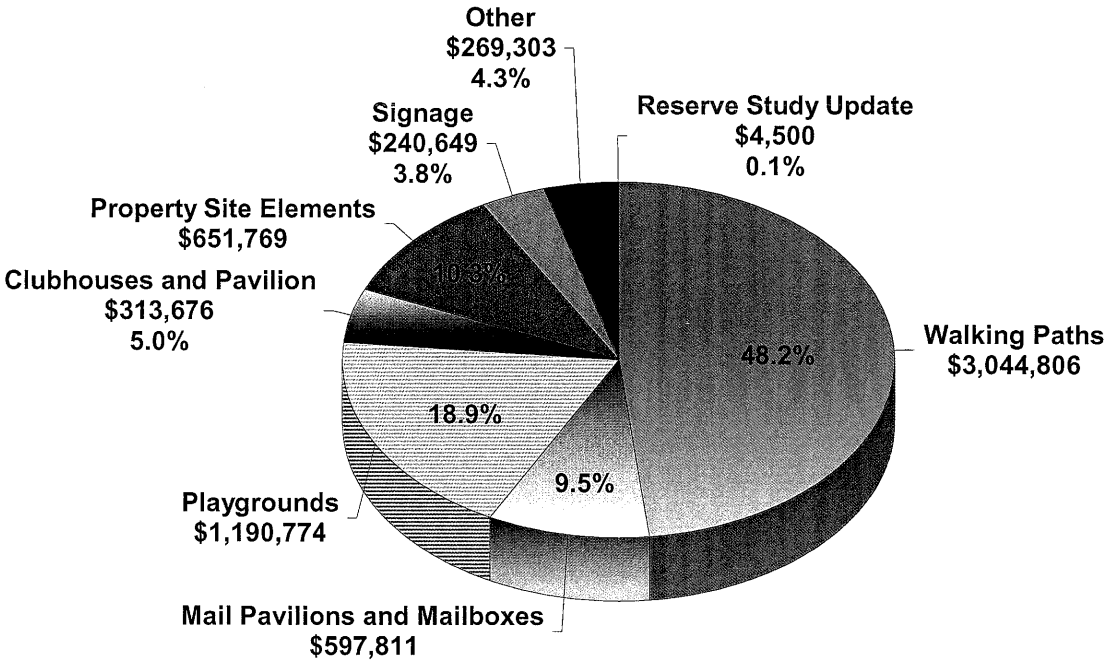
Reserve Component Categories	*Total Current Replacement Costs*	*Total Future or Inflated Replacement Costs*	*% of Total Future Replacements*	*Component of Projected 2009 YE Fund Balance*
Walking Paths	$1,904,355	$3,044,806	48.2%	$64,593
Mail Pavilions and Mailboxes	$362,650	$597,811	9.5%	$12,682
Playgrounds	$638,800	$1,190,774	18.9%	$25,261
Clubhouses and Pavilion	$198,058	$313,676	5.0%	$6,654
Property Site Elements	$406,400	$651,769	10.3%	$13,827
Signage	$140,600	$240,649	3.8%	$5,105
Other	$154,400	$269,303	4.3%	$5,713
Reserve Study Update	$4,500	$4,500	0.1%	$95
Totals	***$3,809,763***	***$6,313,288***	***100%***	***$133,931***

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

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

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

Future Expenditures Relative Cost Illustration
The Jonathan
Association



DEFINITIONS[1]

Cash Flow Method - A method of calculating Reserve Contributions where contributions to the reserve fund are designed to offset the variable annual expenditures from the reserve fund. Different Reserve Funding Plans are tested against the anticipated schedule of reserve expenses until the desired funding goal is achieved.

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

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

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

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

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

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

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

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

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

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

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

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

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

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