



July 25, 2011

**Stephens Grove Homeowner's Association, Inc.**  
**Huntersville, North Carolina**

## 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 Stephens Grove Homeowner's Association, Inc. (Stephens Grove) located in Huntersville, North Carolina and submit our findings in this report. The effective date of this study is the date of our visual, noninvasive inspection, July 6, 2011. 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.

**APRA**

Association of Professional Reserve Analysts

MEMBER OF  
**community**  
ASSOCIATIONS INSTITUTE

Stephens Grove Homeowner's Association, Inc. is a planned unit development which is responsible for the common elements shared by 304 single family homes. The development was built from 1998 to 2006 and contains a clubhouse, pool and kiddie pool, irrigation systems, playground, and tennis and sport courts. We identify 26 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 June 30, 2011, as reported by Management and the Board is \$189,307. If the Association were to continue to fund reserves at its 2011 budgeted amount of \$35,000, the reserve fund would incur a potential shortage by 2033.

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 this threshold or critical point in 2038.

Stephens Grove 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 owners 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 2016, the next five years beyond this current fiscal year. These *near term* expenditures comprise \$177,834, or about eleven percent (11.2%), of the next 30 years of **Exhibit B Reserve Expenditures**. Expenditures beyond the next five years are more important when compared with the current needs of Stephens Grove and tend to govern the amounts of

recommended Reserve Contributions. The current Reserve Expenditures relate primarily to replacement of pool plaster finishes, clubhouse renovations and asphalt pavement repaving.

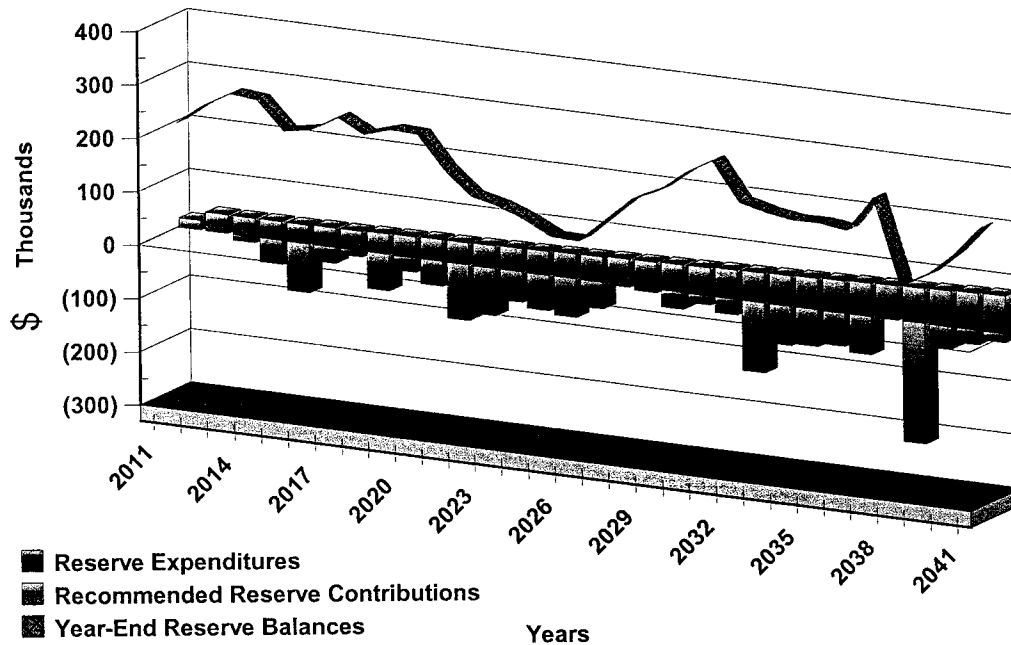
The Association budgeted \$35,000 for Reserve Contributions in 2011. We recommend that the Association adopt level Reserve Contributions of \$35,000 from 2012 through 2015. Afterwards, the Association should budget gradual annual increases in reserve funding, that in part consider the effects of inflation. These contributions will maintain a 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 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	\$
2012	35,000	2022	42,300	2032	55,500
2013	35,000	2023	43,500	2033	57,000
2014	35,000	2024	44,700	2034	58,600
2015	35,000	2025	45,900	2035	60,200
2016	36,000	2026	47,200	2036	61,900
2017	37,000	2027	48,500	2037	63,600
2018	38,000	2028	49,800	2038	65,300
2019	39,000	2029	51,200	2039	67,100
2020	40,100	2030	52,600	2040	68,900
2021	41,200	2031	54,000	2041	70,800

### Recommended Reserve Funding Plan Stephens Grove Homeowner's Association, Inc.



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 July 25, 2011 by  
RESERVE ADVISORS, INC.

*Jayme Radomski*

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<sup>1</sup> 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>.  
<sup>2</sup> 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.